

# AMERICAN BANKERS Association JOURNAL

1929



A Friendly Bank

Cover Story on Page V

Published in Two Sections—Section One

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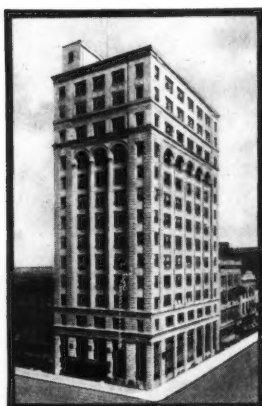
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# Are Banks Friendly?

—[THE JOURNAL COVER ILLUSTRATION; FROM A PAINTING BY WALTER DE MARIS]—

**N**OTWITHSTANDING that hardy perennial, the story of the banker's glass eye, which story flourishes in all seasons but comes into full bloom in the banquet season, banks are among the most friendly of our institutions.

For it is only to a real friend that one entrusts his money, it is only from a real friend that one expects to borrow money, and who is kinder than the man who prevents the credulous from running headlong to financial disaster?

So friendliness has a deeper meaning than mere dancing master postures or chivalrous gestures, but the dearth of these in business sometimes leads to a mistaken conclusion regarding the friendliness of banks.

In the painting from which the cover illustration for this month's JOURNAL was made, Walter de Maris has with consummate skill brought out both the actuality and the illusion regarding the human side of banking.

Here in the foreground is an elderly lady who upon entering a friendly bank stands timidly and abashed before a stolid guardian in uniform. To be first accosted in this haven of friendliness by a stern-

visaged man of the order of policemen is perhaps to our lady in the picture—and perhaps to others not in this or in any other picture—something of a surprise, yet close at hand is just the friendliness that many people advanced in years need, and which they cannot find in the same degree and the same understanding in any other place. Personal friends

may mean well but lack in ability, resourcefulness or experience, and entrusted with business matters their friendship may result in disaster.

**F**OR the old, and often friendless, the bank and the trust company is the understanding heart for which all humanity craves. Its understanding is born not alone of sympathy but of knowledge of finances, stocks and

bonds, laws, human nature, and the experience of many others who have preceded them.

However lightly, therefore, the term may seem to be used, however mistaken the impression which comes from the man in uniform, the friendly bank is no misnomer for, as in the picture shown on the cover, the sunshine is just beyond the shadowy foreground.



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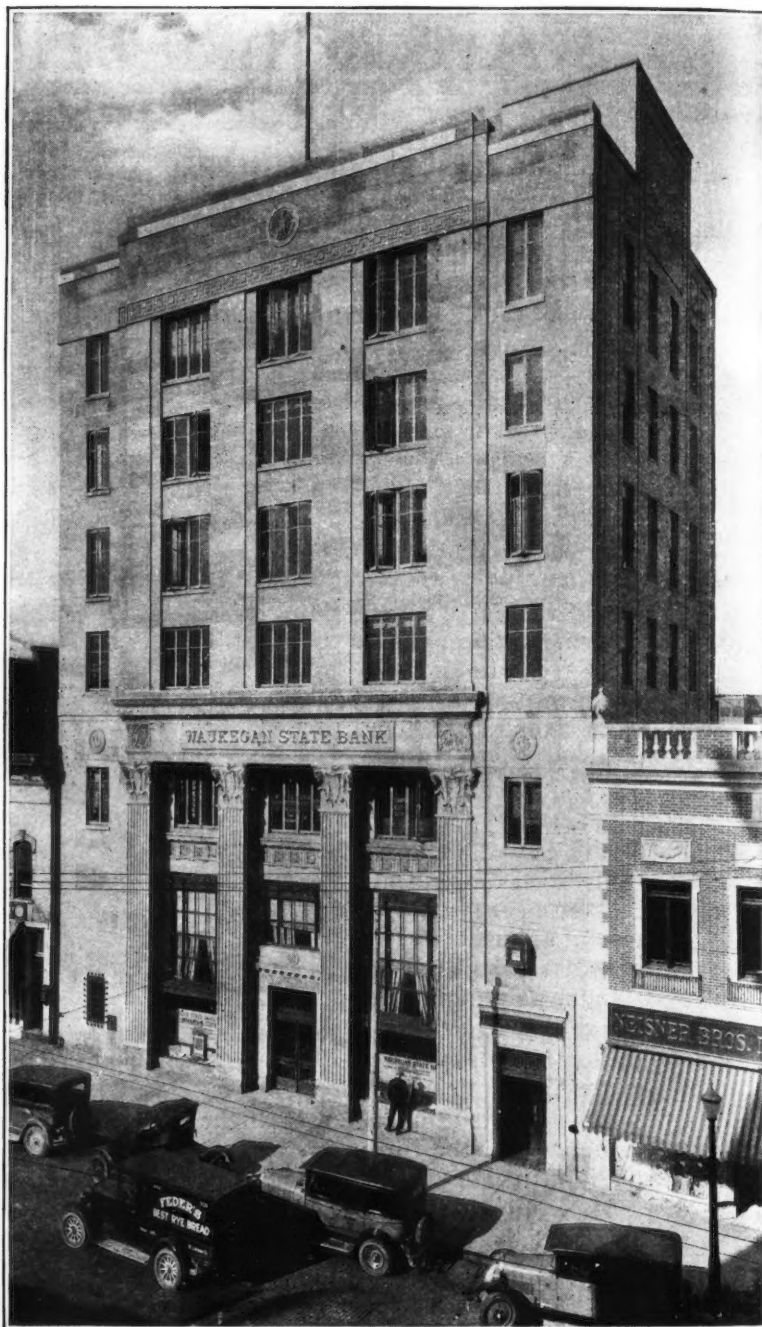
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# AMERICAN BANKERS ASSOCIATION JOURNAL

## Trust Succession Decision of the Supreme Court

By THOMAS B. PATON  
General Counsel, American Bankers Association

**Section 3 McFadden Act Constitutional But Must Operate in Conformity with State Law. In Massachusetts National Bank Consolidated with Trust Company Does Not Succeed to Executorship But Must Apply for Appointment. Effect Upon Mergers.**

THE Supreme Court of the United States has (May 13, 1929) handed down a decision upholding the Supreme Court of Massachusetts in its refusal to allow the Worcester County National Bank to file an account as executor of a will of which the Fitchburg Bank and Trust Company had been originally appointed executor by the Probate Court, the latter having been united by consolidation under Section 3 of the McFadden Act of Feb. 25, 1927. Section 3 provides for consolidation of a state bank or trust company with a national bank in the same county under the charter of the latter, and transfers and vests in the national bank all the rights, franchises and interests of the state bank in and to every species of property of the latter without any deed or transfer, "including the right of succession as trustee, executor or in any other fiduciary capacity," but with the limitation that "no such consolidation shall be in contravention of the law of the state in which such bank is incorporated."

### **Sweeping Effect of Massachusetts Decision Modified**

AT the same time the Supreme Court overrules the Massachusetts court in its holding that the trust succession clause of Section 3 is unconstitutional, and this deprives that decision of its sweeping effect. Section 3, it is seen,

transfers to the consolidated national bank (1) property rights and (2) trusteeships of the state institution. The Massachusetts court upheld the validity of the transfer of property rights, but held the trust succession clause was not only in contravention of state law but unconstitutional because it meant that, notwithstanding the trust company originally appointed had ceased to exist, another and different corporation must be substituted without judicial inquiry as to its credit and competency. The Supreme Court of the United States, however, differs from this view and holds Section 3 constitutional, but that its operation must conform to and not be in contravention of state law. Thus construed with reference to Massachusetts, the court points out that Section 3 enjoins upon the consolidated national bank complete conformity with the state law in its conduct of estates of deceased persons when acting as trustee or administrator, and its effect in that state is only to transfer the property from the trust company to the national bank as the state law provides, and not to transfer the office of executor. As the Massachusetts law requires another judicial appointment, it is the duty of the national bank, immediately upon consolidation, to apply for appointment. It has the right to do this because of its interest in all the assets of the trust company, including the trust estate transferred to its custody.

We will review the decision and then attempt to discuss its effect upon mergers in the different states.

### **What the Massachusetts Court Held**

CHIEF JUSTICE TAFT, in rendering the opinion of the Supreme Court, declares that "this case turns chiefly on the construction, effect and validity" of Section 3 of the Act of Feb. 25, 1927, and first recites what the Supreme Court of Massachusetts held, reviewing at length its reasoning, findings and conclusion. This part of the opinion we will summarize. He points out that the Massachusetts court held:

1. The consolidation of a Massachusetts trust company with a national bank under Section 3 is permissible and valid, there being no statute or statutory policy forbidding such consolidation, although the Massachusetts statute of 1922, which declares void the charter of a trust company that is consolidated with a bank except for the purpose of discharging existing obligations and liabilities, must be regarded as a limitation upon such consolidation. With this qualification, the Massachusetts law left the field open to the exercise by Congress of whatever power it possessed over the subject. As the Supreme Court of the United States (Casey v. Galli, 94 U. S. 673) upheld the congressional power to convert a state bank into a

national bank without any authority given by the state, and as the Massachusetts court could find no distinction between the power of Congress to authorize a conversion and a consolidation, no state legislation was necessary to accomplish the consolidation.

2. The legal effect of the consolidation was that the trust company went out of existence and its identity was not continued in the national bank but was extinguished. The word "franchises" directed to be transferred to the national bank by Section 3 did not mean its charter or right to be a corporation, for that would be in contravention of the law of the Commonwealth. Under the Massachusetts statute, the charter of the trust company became void and only the national bank continued its corporate identity, not as a newly created organization but as an enlargement of the continuously existing national bank. All the property of the trust company became the property of the consolidated bank and the contract obligations of the trust company passed to it. The consolidated bank did not succeed to the executorship because, under the Constitution and practice of Massachusetts, the appointment of an executor is a judicial act, and in the present case no one could succeed to the void and defunct trust company as executor except by appointment of the Probate Court. The trust involved was highly personal. To treat the national bank as preserving the identity of the trust company in this particular would be contrary to the juridical conception and practice touching the appointment of such fiduciaries under the law of the Commonwealth.

3. The Massachusetts court discussed the binding effect on the courts in Massachusetts of the trust succession clause of Section 3. It declared that its meaning was that the original appointment of the trust company as executor was to continue wholly unaffected by the fact that the trust company had ceased to be and that another and different corporation, whose credit, standing and competency had never been the subject of judicial inquiry, must be substituted by virtue of Section 3. The Massachusetts court found that this result was in contravention of the law of the Commonwealth and contrary to the Federal and state constitutions. The Massachusetts court found, however, that the trust succession provision was not the dominant part of Section 3, that it was separable and distinct, that the rest of the section could stand independently, and that there was no such connection between the two as to indicate that Congress would not have enacted the valid part without the other.

4. The Massachusetts court, therefore, decided that the consolidated bank had not succeeded the trust company as executor and was not entitled to render an account as executor, but could only account as executor *de son tort*.

Following this review of the reasoning and findings of the Supreme Court of Massachusetts, Chief Justice Taft renders the opinion of the court in

the following language (we quote the balance of the opinion in its entirety):

"In passing on this appeal, we must observe that in determining the policy of a state from its statutes and their construction, we of course follow the opinion of the state court except as it may be affected by the Federal Constitution. When, therefore, the state court holds that an executor, to act as such in the state, must be appointed by the Probate Court, this court must respect that conclusion and act accordingly. But when the question arises as to what is the proper interpretation and construction of Federal legislation, this court adopts its own view.

### Executorship Not Transferred in Massachusetts

"IT is very clear to us that Congress in the enactment of Section 3 of the Act of Feb. 25, 1927, was anxious even to the point of repetition to show that it wished to avoid any provision in contravention of the law of the state in which the state trust company and the national bank to be consolidated were located. So strongly manifest is this purpose that we do not hesitate to construe the effect of Section 3 in Massachusetts to be only to transfer the property and estate from the trust company to the national bank to be managed and preserved as the state law provides, for administration of estates, and not to transfer the office of executor from the state trust company to the succeeding national bank.

### Consolidated Bank Must Ask for Appointment

"AS this requires another judicial appointment by a probate court, it would become the duty of a consolidated national bank, after the union, immediately to apply for the appointment of itself as executor, subject to the examination and approval of the proper probate court. Because of the interest of the national bank in all of the assets of the trust company, including the estate at bar, transferred to its custody, the bank would seem to have a right to make such an application to the Probate Court and await the action of that court. If, on the other hand, it assumed improperly that it was made an executor by the mere consolidation, and held the transferred property as such, it must be held to have become an executor *de son tort* and should bring the assets before the Probate Court and proceed by proper application to secure the appointment of a legal executor by the court, as pointed out by the Supreme Judicial Court in this case and in *Commonwealth-Atlantic National Bank*, 261 Mass. 217, and *Commonwealth-Atlantic National Bank*, 249 Mass. 440.

### Section 3 Constitutional

"THESE views lead us to agree with the conclusions of the Supreme Judicial Court in respect to the legality of the consolidation of the trust company

and the national bank, and only to differ from it in its construction of Section 3, by which it would hold that section unconstitutional under the Constitution of Massachusetts, and so under the Constitution of the United States.

"We think Section 3 enjoins upon the national bank complete conformity with the Massachusetts law in its conduct of estates of deceased persons when acting as trustee or administrator thereof.

### Former Massachusetts Decisions

"THE Supreme Judicial Court refers in its opinion in this case to that of *Commonwealth-Atlantic National Bank of Boston*, 261 Mass. 217, as showing that the consolidated bank in this case could not act as executor. In that case a state trust company was appointed by the Probate Court as trustee under wills in two cases and as conservator of property in a third. It qualified by giving bond, and for some time held and administered the property as fiduciary. Thereafter it was converted into a national bank, which still later was consolidated with another national bank. No new appointment as trustee was made by the Probate Court. The consolidated national bank petitioned for allowance of accounts as fiduciary. The court held that while the accounts were accurate and complete, the consolidated bank was not a duly appointed fiduciary merely by virtue of the original appointment of the state trust company, and could only account *de son tort*. The court relied on *Commonwealth-Atlantic National Bank of Boston*, 249 Mass. 440. There a state trust company was named as executor in a will. Thereafter it became converted into a national bank, which still later was consolidated with another national bank. The testator having died, the consolidated national bank petitioned for the issuance of letters testamentary to it as the executor named in the will. The court held that it was not the executor named therein, and that the designation of the state trust company as executor did not confer on it a property right passing to its successor, the consolidated national bank.

### Consolidated Bank Eligible for Appointment

"THE court in both *Commonwealth-Atlantic Bank* cases accepted the effect of the decisions in *First National Bank of Bay City v. Fellows*, 244 U. S. 416, and *Burnes National Bank of St. Joseph v. Duncan*, 265 U. S. 17, the latter holding that national banks may act as executors in a state where state trust companies have that privilege. The court in 249 Mass. said: 'We accept, as we are bound to accept, that principle in all its amplitude and with all its implications,' but said that 'that principle does not reach to the facts here presented.' There was similar language in 261 Mass. The Supreme Judicial Court did not then hold and has not held that a Probate Court of Massachusetts may not appoint a national bank,

otherwise qualified, to be executor, administrator or trustee if it approves one as such. In construing Section 3, we think it to be in conformity therewith for the national bank after consolidation to apply to the Massachusetts Probate Court for appointment as a succeeding fiduciary to carry on the duties. In the present case, no such appointment has been made by the Probate Court.

### Constitutional Effectiveness of Section 3 Preserved

**“U**NDER the Massachusetts authorities as already cited, the bank in attempting in this case to act as executor has become an executor *de son tort*, and that situation must be disposed of in accordance with the laws applicable in Massachusetts to such a situation. *Clabborn v. Phillips*, 245 Mass. 47. When the executor *de son tort* has been released, it would seem that application might be made to the Probate Court for appointment of the national bank as executor to close the estate. It seems to us that our construction of Section 3 of the Act of 1927, in differing from that of the Supreme Judicial Court of Massachusetts, makes it possible by the appointment of the probate judge, if he approves, to enforce the requirements which the laws of that state impose in the execution of such trusts, and still preserve the constitutional effectiveness of Section 3.

“This result requires us to affirm the dismissal of the petition of the Worcester County National Bank in seeking to render the first and final account of the Fitchburg Bank and Trust Company as executor of the last will and testament of Julia A. Legnard, deceased, and its own account as executor of her will, but to remand the cause to the Probate Court for a proceeding by the petitioner as executor *de son tort*, and for such further proceedings as it may be advised and as are permissible by the laws of Massachusetts and the statutes of the United States not inconsistent with this opinion.”

### Interpretation of Decision

**A**S we interpret the decision of the Supreme Court of the United States, it upholds the constitutionality of Section 3 of the McFadden Act, which provides for consolidations of state institutions with national banks and transfers to the consolidated national bank both the property rights and the trust powers of the state institution, but that section must be construed in conformity with and not in contravention of state law. Therefore in a state such as Massachusetts where, because of a state statute, the state institution upon consolidation goes out of existence and its identity is not continued in the consolidated bank, Section 3 is to be construed only to transfer the property and estate of the extinct institution, which is in accordance with the state law but “not to transfer the office of executor from the state trust company to the succeeding national bank” for the rea-

son that trust powers of a personal nature, such as executorships, require judicial inquiry before a new appointment. This being so, under the law of Massachusetts it becomes the duty of the consolidated national bank immediately after the consolidation to apply for appointment of itself as executor and because of the interest of the national bank in the assets transferred and in the trust estate, it has the right to make such application and await the action of the court. The Supreme Court of the United States stops there. It does not hold that it is mandatory upon the Massachusetts Probate Court to appoint the consolidated bank as executor, although it is eligible and holds the trust estate. Such appointment is left to be governed by the law of Massachusetts. Doubtless such appointment would follow as matter of course in the great majority of cases because, not only under decisions of the United States Supreme Court are national banks qualified to act as executors where state trust companies have that privilege, but the Legislature of Massachusetts itself has expressly recognized such qualification (see Ch. 259, Acts 1923) by making provision as to cases in which security may be required of a national bank acting as fiduciary. It is conceivable, however, there might be cases in which the Probate Court would not approve of the consolidated national bank as executor and the consolidated bank does not become executor until appointed by the Probate Court. Take as an illustration a case where the bulk of the estate consists of shares in an industrial corporation and the officers of the national bank are financially interested in a competing corporation; in such event the Probate Court might decline to make the appointment.

### Is Corporate Identity Continued Unless State Law Contravenes?

**I**N rendering this decision, the Supreme Court of the United States follows the opinion of the Supreme Court of Massachusetts in construing the Massachusetts statute that the charter of the trust company becomes void as to positions of personal trust, like executorships, and that its corporate identity is not continued in the consolidated national bank but is extinguished. It accordingly construes the effect of Section 3 in Massachusetts, in harmony with the state law, as “not to transfer the office of executor from the state trust company to the succeeding national bank.” But where there is no state statute, such as in Massachusetts, declaring the charter of a trust company void when it is merged with a national bank, is Section 3 to be interpreted (1) as continuing the corporate identity of the trustee in the consolidated institution, or (2) as transferring the trusteeship to a successor institution. This distinction may be of importance with reference to statutes in some states which make it mandatory upon the Probate Court, where an executor dies or

becomes non-existent, to grant preferential appointment as administrator with the will annexed to particular persons specified. State statutes differ in this respect, and the more usual governing principle is to give preference to the person most beneficially interested. If Section 3 can be construed as continuing the identity of the original trust company executor in the consolidated national bank, in the absence of a state statute declaring the merged trust company extinct, all trouble on this score will be removed. If the merged trust company has been absorbed by and survives in the consolidated bank, then the latter is the executor without any new appointment. The Supreme Court has, heretofore, held that where a state bank is converted into a national bank, the identity of the state bank is preserved; it is the same bank under a different name and a different jurisdiction. True, a consolidation is different from a conversion because two institutions are involved, and true, also, the language of Section 3 transfers and vests in the national bank the property and trusteeships of the trust company, which language is more indicative of a successor trustee than the same trustee under a different name, and it may be that the section will be construed as not continuing the identity of the merged institution into the consolidated national bank. It is regrettable that Section 3 has not been more clearly interpreted by the Supreme Court upon this proposition.

### Transfer of Trusteeship Where No Contravention

**H**OWEVER this may be, and assuming Section 3 is to be construed as transferring property rights and trust powers to the consolidated national bank as an independent successor corporation, it is now held constitutional by the Supreme Court, but only operative to the extent it is not in contravention of state law. It would seem to follow from this that in any state where there is nothing to the contrary in the state law, the trust succession clause would operate to transfer and vest in the consolidated bank all trusteeships already vested in the trust company prior to consolidation without further action, so that upon consolidation the consolidated bank would be the new executor or trustee by right of succession without more. As to the right to appointment under wills wherein the trust company has been named as executor, but which have not been probated until after consolidation, this right would be clear if the trust succession clause of Section 3 could be construed as continuing the identity of the trust company in the consolidated bank, but adopting the interpretation that such clause provides for a successor to the rights and interests of the trust company originally named, it is reasonable to assume the consolidated bank would succeed to all the rights which the original trustee had, including the privilege of being appointed executor. This right would exist by

virtue of the trust succession clause of Section 3 where not in contravention of state law and an additional ground in support of the right as to all wills executed after the Act of Feb. 25, 1927, or, if executed before, where the testator died after Feb. 25, 1927, would be the presumption that the testator executed or allowed his will to remain unaltered with knowledge of the existence of the trust succession clause, and that, therefore, such clause entered into his contemplation and became part of his intention. While the Act of Congress would not have the same effect as state merger statutes which have been held to enter into and become part of wills because it is the sovereign power of the states and not of Congress to regulate the devolution of estates, it would nevertheless be effective, we think, as notice to the testator that a national bank, being eligible, might ultimately succeed as executor where not in contravention of the state law and thus be within his intention. If our deduction is correct, that where not in contravention of state law, Section 3, being constitutional and operating to transfer and vest in the consolidated bank not only property rights but trusteeships and rights to be appointed executor, as fully as the merged corporation would be so entitled, the question of trust succession upon consolidation of a state trust company with a national bank in the various states involves the ascertainment of the law of each state to determine what is in contravention therewith and the extent to which Section 3 can operate in harmony with such state law. This will require a detailed examination of the law of every state to reach a correct conclusion which is impracticable here because of the limits of time and space and is a function that could more properly be performed by local bank counsel. We may, in a general way, look into the laws of some of the states as typical. For this purpose the states may be divided into—

1. States having statutes relating to consolidation or merger of state institutions.
2. States having similar statutes, including national banks.
3. States without statutory law for consolidation.

### State Consolidation Statutes

**T**HE proposition is uncontroverted that Congress has power to authorize the consolidation of a state institution with a national bank, and that no state legislation is necessary to accomplish such consolidation. By Section 3 of the Act of Feb. 25, 1927, Congress has authorized such consolidations, and upon any such consolidation the property rights and trust powers of the state institution are, by the act of Congress, transferred to the national bank with the limitation that "no such consolidation shall be in contravention of the law of the state." Under this limitation the Supreme Court of the United States now holds that when it is held by a state court, as in Massachusetts, "that an

executor to act as such in the state must be appointed by the Probate Court, this court must respect that conclusion and act accordingly," namely, "construe the effect of Section 3 in Massachusetts to be only to transfer the property and estate from the trust company to the national bank, to be managed and preserved as the state law provides for the administration of estates and not to transfer the office of executor from the state trust company to the succeeding national bank." The Supreme Court of Massachusetts held as it did because under the statute of Massachusetts the trust company by such consolidation went out of existence and the consolidated bank did not succeed to the executorship because under the constitution and practice in Massachusetts the appointment of an executor is a judicial act, and no one could succeed to the defunct trust company as executor except by appointment of the Probate Court.

A number of states have statutes providing for consolidation or merger of state banking corporations or trust companies with provisions similar to the Federal Act transferring and vesting in the consolidated corporation all the rights, franchises and interests (some specifically including trust powers) of the bank or trust company which is held to go out of existence, and when these statutes have come before the state courts, as they have in several cases, they have been invariably held effective in transferring to the new institution the trust powers of the old, whether specifically mentioned or not. Notwithstanding that in these states, similarly as in Massachusetts, when an executor dies or goes out of existence, it is a judicial function to appoint a successor, there has been deemed no legislative usurpation of a judicial function by such statutory designation of the consolidated institution as the new executor or trustee. The statutory successor, executor or trustee, in the case of wills, has been recognized largely on the theory that the statute entered into contemplation of the testator where it was in force before he died and the successor executor was within his intention. If such theory is upheld by the state courts with respect to state consolidation statutes, it is reasonable to assume that such courts would hold likewise with respect to the Federal consolidation statute, and that its effect in transferring trust powers to the consolidated corporation was not in contravention of state law. Space will permit but a brief reference to these decisions.

### New York

**R**E: Bergdorff's Will, 99 N. E. 714; year 1912. The banking law of 1909 authorized two or more trust companies to merge and vested the rights and franchises of the merged corporation in the other. The merged company had been named as executor in a will. The testator died after the merger and the successor company applied for letters testamentary. The surrogate denied the application, but the Court of

Appeals reversed the ruling. It held the merged company did not exist as part of the successor company, and the two were not identical, but the legislature had power to enact that a trust company into which another trust company lawfully designated as executor had been merged subsequent to making and prior to probate of the will should be the transferee of the privilege or right of being executor, and assuming such statute existed prior to the death of the testator, it enabled the transferee company to trace to the will the designation and appointment of itself as executor and required issuance of letters testamentary to it. By virtue of the statute, effective as part of the will, the successor company was designated as executor and was entitled to receive letters testamentary.

### Illinois

**C**HICAGO Title and Trust Company v. Zinser, 105 N. E. 718; year 1914. A trust company was nominated executor in a will, and before the death of the testatrix was consolidated with another trust company under statutory authority. The will was admitted to probate and letters testamentary issued to the successor trust company. The will authorized the executor to sell real estate. A purchaser declined to accept a deed from the successor trust company as executor on the ground that the former trust company had been nominated in the will as executor for that purpose. The Supreme Court of Illinois held that the original corporation had ceased to exist and the consolidated corporation succeeded to all its faculties, property, rights and franchises; that the rule prohibiting a trustee from delegating powers involving the exercise of discretion is not applicable where a trustee is a corporation, as the element of trust in the trustee's judgment and discretion is entirely wanting, the corporation being without personality and subject to change in its administration and organization; that the consolidated corporation was entitled to execute the trust as executor because the testatrix in making the appointment knew that the corporation named was subject to change and that the statute authorized change in its organization and consolidation with another corporation; that she, therefore, contemplated such a consolidation.

### California

**I**N RE: Barnett's Estate, 275 Pac. 453; year 1929. A bank was named as executor and trustee of a will; it qualified as executor and made final distribution of the estate and was left with the duties of performing the trust. Thereafter it sold its business to another bank, and this bank sold the business to a third bank, which thereafter converted into a national bank. The successive sales were in pursuance of Sections 31 and 31a of the California Bank Act, which provided for the transfer of the business of banking corpora-

tions, including trusts, by sales, consolidation or merger. The national bank filed its first annual report and account as testamentary trustee under the will. The beneficiaries objected to the settlement of the account on the ground that a new trustee was substituted for the one named in the will without their approval or consent. The District Court of Appeal held it became the duty of the Probate Court to recognize the national bank as the new trustee; that the statute providing the succession was constitutional and did not deprive the state courts of jurisdiction over testamentary trusts, but merely created new rights over which the courts of equity had cognizance; that the courts of equity would have jurisdiction to determine whether the substitution of a national bank as trustee was detrimental to the interests of the trust estate; that the substitution of the national bank as trustee was effective under the statute without the necessity of approval or consent of the beneficiaries; that the testator, in contemplation of the consolidation provisions of the Bank Act, impliedly assented to the merger with all the consequences following the consolidation and by voluntarily designating the original corporation as trustee must be deemed to have adopted the full scheme of substitution of trustees provided by the Act.

In these three states, it is seen, under statutes providing for consolidation of state banks, the successor bank has been held to have become the executor or testamentary trustee by virtue of the transfer provisions of the statute and the testator who nominated the original corporation as executor or trustee has been held to have contemplated the scheme of succession provided by the Act. With equal reason, it would seem, would the testator be held to have had in contemplation the similar scheme of consolidation provided by the Federal Act and to have contemplated that the consolidated national bank might be the successor trustee. Of course there is a difference between the Federal and State Consolidation Acts in the case of testamentary trusteeships, because the right to make a testamentary disposition of property, or designate an executor or trustee, is not an inherent right but one which depends entirely upon the consent of the state legislature; hence consolidation acts of state legislatures prescribing trustee succession are of binding force. At the same time the Federal Consolidation Act, being valid and effective to permit consolidations of state trust institutions with national banks must, we think, equally be held to come within the contemplation of every testator who dies after such Act took effect. In the California case, it will be noted, a national bank was upheld as the ultimate successor testamentary trustee, but this was not because of the Federal Consolidation Act, but because the state bank testamentary trustee had been converted into a national bank. It is doubtful if this testamentary trusteeship would have

been held vulnerable had the national bank consolidated with the state bank under the Act of Feb. 25, 1927.

### Statutes Including National Banks

**I**N a few states consolidation statutes have recently been enacted which permit state institutions to consolidate with national banks, and provide that the national bank shall succeed to and be vested with the trust powers of the state institution. Thus in California, by amendment to the Bank Act of 1927, a national bank, qualified to exercise trust powers, which has been converted from a state bank or which is the result of a consolidation with a state bank or another national bank under the Acts of Congress, is vested with all the rights and privileges including trust powers of the institution to which it succeeds, and the recordation of a certificate of merger is constructive notice that all the rights, benefits, privileges, duties, and obligations of whatsoever kind or nature held or possessed by or imposed upon the bank so converted or consolidated or merged are retained by and imposed upon the successor bank.

Also in New Jersey (Chapter 207, Laws 1928) provision is made for the consolidation of a trust company with a national bank, the charter of the trust company to be deemed surrendered except that for three years it continues for the purpose of prosecuting and defending suits and closing its concerns and "all rights, privileges, choses in action, property real and personal, and all trust powers, duties, designations and appointments made or contained by or in any deed, will, instrument, order or decree executed or made before the filing of such certificate shall vest in, devolve upon and inure to the benefit of said new or consolidated national bank."

In Virginia, Chapter 567, Laws 1928 (the new Banking Code), state banks may be merged or consolidated with other state or national banks, and all rights of the former corporation vest in the new upon merger.

In North Carolina, by Act ratified March 13, 1929, any bank or trust company may be consolidated with a national bank under the charter of the national bank or under a new charter issued to the consolidated association, and all rights, franchises and interests of the bank or trust company so consolidated with the national bank are transferred and vested in the consolidated national bank, including the right of succession as trustee, executor, administrator, or in any other fiduciary capacity in the same manner, and to the same extent as are held and enjoyed by such bank and trust company so consolidated. This follows the language of the Federal Consolidation Act, and was enacted in view of the decision of the Supreme Court of Massachusetts for the purpose of making it absolutely certain in North Carolina that the fiduciary powers and rights of a state bank shall

be transferred to any national bank with which it is consolidated or merged.

It would be desirable if all state legislatures would follow the lead of such states as North Carolina, New Jersey and California, and, by including national banks within the provisions of their statutes authorizing consolidations and mergers, with transfer of trust powers, establish beyond peradventure the right of a national bank to succeed to all the trust powers of the old institution, testamentary and otherwise.

### States Without Consolidation Statutes

**I**N a number of the states no statutes exist providing for bank consolidations or mergers, and the question arises in these states whether, if a trust company consolidates under the charter of a national bank in pursuance of Section 3 of the Act of Feb. 25, 1927, the consolidated bank will become the successor trustee without more, or whether there is anything in the law of any such states which would make the trust succession, especially in the case of testamentary trusts, in contravention of the state law. The Massachusetts decision, we have seen, as modified by the United States Supreme Court, went on the theory that, as by virtue of the state statute, the absorbed trust company ceased to exist, the appointment of the succeeding trustee was a function of the state courts which would be usurped if Section 3 should operate to create a successor trustee without a judicial proceeding. In nearly every state, as in Massachusetts, when an executor dies or becomes extinct there is statutory provision for appointment by the court of a new trustee, some state statutes giving preferential rights of appointment to beneficiaries named in the statute and others, leaving it to the discretion of the court with respect to appointment of the person chiefly interested. It is possible that in some states, in the case of testamentary trusts, even in the absence of an express statute, the courts might hold a merged trust company to have gone out of existence, and take the same view as the Massachusetts court, that the usurpation of the judicial function of appointment by Act of Congress would be in contravention of the state law. But it seems more likely the courts would take the same view as has been taken by the courts under state consolidation statutes, that the Act of Congress entered into the contemplation of the maker of a will; that it being made lawful for the trust company whom he named as executor or testamentary trustee, to consolidate with a national bank, this possible consequence was contemplated when he made the will. However this may be, it would be better, in the interest of certainty, that state legislation be universally promoted authorizing and legalizing consolidation of state trust institutions with national banks and clearly vesting all trust powers of the state institution in the national bank successor.

### Fiduciary Succession in Pennsylvania

AN instructive decision was rendered by the Supreme Court of Pennsylvania in April, 1923, upholding the right of a national bank to become guardian where a trust company had originally been appointed guardian and had converted into a national bank which consolidated with another national bank under the Federal Consolidation Act of 1918. In *re Turner's Estate*, 120 Atl. 701. In settling the account of executors under a will, the trust company had been appointed by the court as guardian for certain minor beneficiaries. After consolidation the national bank asked that the funds belonging to the minors be paid to it. The court refused to turn over the funds until the Orphans' Court had approved the bank as fiduciary. The Orphans' Court refused the bank's application to act as fiduciary, and also dismissed its petition as guardian for the minors that the funds be awarded to it, notwithstanding such refusal. The Supreme Court of Pennsylvania, however, affirmed a decree of the Superior Court which reversed the court below. The main contention of the Commonwealth was that to permit a national bank to act in a fiduciary capacity in Pennsylvania would amount to a violation of the laws of the state because of differences between the state and Federal statutes in their requirements of handling trust funds. But the Supreme Court of Pennsylvania held that under Section 11k of the Federal Reserve Act, as amended in 1918, the national bank had a right to act as fiduciary under the laws of Pennsylvania, and that in so far as the state law is inconsistent with the Federal Act, the former must yield to the latter. The national bank in this case acquired its rights under the Federal Act of 1918, for the consolidation of two or more national banks which transfers all the rights, franchises and interests of the national bank consolidated to the successor in similar language, with the exception of the trust succession clause, to that of the Act of Feb. 25, 1927, which provides for the consolidation of state institutions with national banks. It will be observed that the Supreme Court of Pennsylvania, without discussing the validity of the trust succession, evidently assumed without question that the consolidated bank took over the right to become guardian. There were two petitions of the national bank before the court, one to be approved as fiduciary, the other to be awarded the funds as guardian notwithstanding the refusal to approve its application so to act. The Supreme Court of Pennsylvania, in its decision upholding the right of the national bank to act as fiduciary, does not make it clear whether the national bank succeeded to the original appointment without court action, or whether it simply succeeded to the right to make application to be appointed as guardian. However this may be, the result of the decision is to recognize the trust succession rights of the consolidated na-

tional bank to act as guardian, whether or not it must go through the formality of applying for appointment.

At the time of this decision the Pennsylvania statutes provided for the merger of banking corporations and trust companies, but the statutory provisions did not enter into the question considered by the court. Shortly after the rendition of this decision, the Legislature of Pennsylvania enacted a merger and consolidation act applicable to trust companies and state banking institutions (May 9, 1923), transferring and vesting in the consolidated corporation all the estate and property, real and personal, held by either of such merging corporations in any trust or fiduciary capacity "without any further act or deed or any order or decree of any court or other tribunal," and providing that the consolidated corporation should execute the trusts devolved upon it "in the same manner as though it had itself assumed the relation or trust." The act contains a proviso which permits the filing of written objections to the trusteeship of the consolidated corporation and discretion in the court to appoint a substitute trustee. This act, however, only applies to trust companies and banking corporations incorporated under the law of the Commonwealth and does not cover national banks.

### Principal Points Summarized

IN conclusion, to summarize the main points of this article:

1. Section 3 of the Act of Feb. 25, 1927, providing for consolidation of state banks or trust companies with national banks, and transferring to the consolidated national bank the property rights and trust powers of the state institution, is constitutional.

2. It is, however, only operative to the extent it is not in contravention of state law.

3. In Massachusetts, where the statute provides that a merged trust company goes out of existence, the effect of the Federal Consolidation Act is only to transfer the property from the trust company to the national bank and not transfer the office of executor, because the appointment of a new executor in the case of a defunct trust company is a judicial act, and the transference of the executorship to the national bank without judicial appointment is contrary to state law.

4. In such case the consolidated national bank must apply to the Probate Court for appointment of itself as executor.

5. The decision of the Supreme Court does not make clear whether, when not in contravention of state law, Section 3 operates to continue the corporate identity of the trust company in the national bank or only to transfer the trusteeship to the consolidated national bank as an independent successor.

6. Assuming the latter, Section 3, when not in contravention of state law, operates to transfer to the consolidated national bank all trust powers vested in the trust company prior to consolidation,

so as to constitute the national bank the new executor or trustee by right of succession without court action. In the case of wills not probated until after consolidation, the consolidated national bank succeeds to the privilege of being appointed executor held by the original trust company, at all events in cases where the testator died after Feb. 25, 1927.

7. Court decisions under similar state consolidation statutes support this view on the theory that the existence and operation of the consolidation statute is in contemplation of the testator.

8. A few states have recently enacted statutes permitting consolidation of state trust institutions with national banks and vesting trustee powers in the consolidated bank.

9. It is desirable that all states enact such statutes to establish, beyond peradventure, the right of succession of consolidated national banks to trust powers of merged institutions.

10. In states that have no consolidation statutes and no statutory provision, as in Massachusetts, declaring extinct a merged trust company, the probable result is that the Act of Feb. 25, 1927, will operate to vest the trust powers of the state institution in the consolidated national bank.

### Macallen Decision Reversed

JUST as we go to press, there comes announcement of the decision of the Supreme Court of the United States (May 27, 1929) reversing the decision of the Supreme Court of Massachusetts in the Macallen case, 163 N. E. 75, and declaring void the excise tax law of Massachusetts levying a tax upon domestic corporations of an amount equal to 2½ per cent of net income in two respects, namely, because it permits the inclusion in such amount of (1) the income from Federal bonds and securities and (2) from county and municipal bonds. While in form an excise, the court holds that in substance and reality the tax is an indirect tax upon the securities themselves. As to Federal securities it is void because it is in violation of the constitutional power of Congress to borrow money on the credit of the United States as well as in violation of the Acts of Congress declaring such bonds and securities to be non-taxable; as to county and municipal bonds, the Act impairs the obligation of the statutory contract of the state by which such bonds are made exempt from state taxation.

A dissenting opinion was rendered by Mr. Justice Stone, which was concurred in by Mr. Justice Holmes and Mr. Justice Brandeis.

This decision will have an important bearing on the movement to substitute excise taxation of banks and other corporations, measured by net income, as alternative for property taxation of bank shares in the different states, and will be reviewed fully by our General Counsel in our next issue.

# Profit and Loss Operations

By CRAIG B. HAZLEWOOD

President, American Bankers Association and Vice-President First National Bank of Chicago

**Indicators for Piloting Banks in Direction of Profits Easy to Set Up. Charts Will Show Trend of Gross Income and Total Expenses Plus Losses. Difference Is Margin of Profit. More Important Expense Items Must Also Be Watched Consistently.**

**W**HEN the banker is making a motor trip to his favorite fishing grounds, he automatically checks his speed, mileage, time, gasoline supply, and the other essential facts which indicate whether he is to arrive on schedule. There are still bankers, however, who approach the end of the fiscal year merely hoping that the institution will show a profit. It is no more difficult to set up indicators for piloting a bank through a profitable year than it has been to devise an instrument board for an automobile.

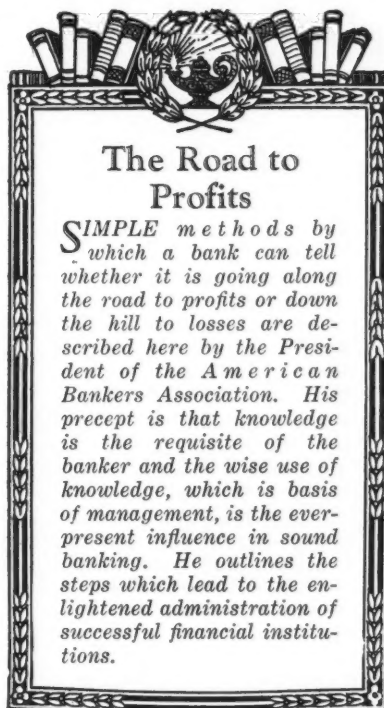
There are certain operations which exercise all the major influences in the direction of profit or loss. These influences are easily charted and checked month by month.

The first chart should show the trend of gross income and total expense plus losses. These may be charted side by side on the same sheet. Then the difference between the two lines represents the margin of profit. This margin should increase or at least remain constant. The truth of the matter is that in a number of states, gross earnings have increased 215 per cent, while expenses have increased 360 per cent. The expense line has been climbing 66 per cent faster than the gross income; and if it continues at this rate in any institution, it will bring the bank into the red. Good management should have this factor before it every day in the year in order that the expense line may be kept down and the earnings line may mount.

## Monopolized the Dollars

**I**N addition to this general chart, it is well to chart the trend of each of the more important income and expense items. If, for example, the salary item or interest paid item is climbing faster than the total income, the management problem involved is apparent. If some expense item has tripled during a period when other items have only doubled, the first item is probably out of line. Every change in grade calls for investigation and explanation.

Approximately 12,000 banks in 3000 communities have adopted service charges. The need for these charges was made evident by the figures. In one western bank, 70 per cent of the accounts represented less than 6 per cent of the dollars on deposit; 40 per cent of the checking accounts averaged \$17.14 apiece. In another bank, 71 per cent of



the accounts represented only 5 per cent of the dollars on deposit. On a time basis, seven hours out of every ten, together with seven-tenths of the deposit facilities, including floor space, were being monopolized by only five or six per cent of the customer dollars. In the first bank, 8 per cent of the accounts represented 81 per cent of the dollars on deposit. An analysis of this 8 per cent would have shown whether 81 per cent of its dollars were profitable to the bank.

In an analysis covering a number of widely separated cities, 34 per cent of the accounts averaged \$7.08 apiece; 49 per cent averaged \$14.82; 75 per cent averaged \$41. Three-fourths of the accounts were below \$50. Take 500 accounts with an average balance of \$25, set up a reserve of 15 per cent, and at 6 per cent the bank will only make \$638 on the loanable balance. One need not go into higher mathematics to know how far \$638 will go in serving 500 accounts. The bank must provide part of the time of a teller, the total time of a bookkeeper, checks, statements, books, depreciation of

bookkeeping machinery, rent, light, taxes, advertising, overhead, and officers' salaries. Those who have figured costs carefully estimate that these accounts will reveal a net loss of \$6 apiece per year.

## Brings Quality Business

**O**BVIOUSLY, a bank with a large number of small unprofitable accounts has not put adequate thought upon the question of quality business. It has penalized itself with low grade accounts. It has supplied facilities to customers who have no economic right to enjoy such a luxury, and it should have no difficulty in convincing such customers that a service charge is fair.

Nor is this matter a trivial one. I know of cases where banks have earned from 2 to 19 per cent on their capital by recourse to the service charge alone. In one such bank, a number of accounts averaging \$22.98 were lost. Sixty days after the service charge was put into effect, the number of accounts was somewhat smaller, but the total deposits were actually larger. The average daily balance of all accounts increased from \$407 to \$563, and the service charge collections amounted to over \$500 a month, netting 2 per cent annually on the capital stock. A medium sized bank in Ohio has added \$6,000 a year to its earnings through the service charge, and expects to increase this to \$9,000 by raising the service charge from fifty cents to one dollar. One thousand dollars in service charges collected annually is the equivalent of putting \$66,000 in new business on the books at a net profit of 1½ per cent; \$6,000 annually is the equivalent of adding \$400,000 in new business and netting 1½ per cent thereon.

Experience indicates that the service charge brings about a natural selection of the quality business and of the people who believe that every service is worthy of a profit. To quote the cashier of a bank which failed to put on a service charge when all of his competitors did so:

"The other banks in the city put on the service charge about a year ago and our institution did not see fit to do so; consequently, we picked up all the cats and dogs, so to speak, and worked our force to death and made no money."

I am certain that the service charge  
(Continued on page 1281)

## Free Areas for Pioneers



TALES of trails to far countries are fascinating. The Santa Fe trail is alluring; the Oregon trail intriguing. There is a glamor of romance about every rush, great or small, of the people to the land, and especially to the land of far countries.

Now, though there are still millions of acres that are practically free for settlers, the rush for new land is over, and people are turning back from the land to the cities.

The reversal of the tide is regarded by some observers with concern, but if it would have been stupid for the early American colonists to have remained always on the Atlantic seaboard, might it not be a mistake of similar magnitude for everyone to remain now on the farms?

The settlement of the country has been achieved—the land is no longer crying for people.

There is pioneering to be done, however, in fields just as extensive and just as unknown as was the interior and the Far West of this country 100 years ago.

There are still new trails to be followed to far countries, in the realms of knowledge and understanding, and already many men are following them and will open new vistas for the race.

Such men as Arkwright, Stephenson, Hamilton, Franklin, Morse, Bell, Westinghouse, Haynes, Ford

and Edison have not achieved nor discovered all. If history repeats itself there is a new line of geniuses to come among us and to lead us into what is now the unknown.

Civilization is on the move all along the line and the changes that are occurring in business and banking may not be attributed solely to any man here or there.

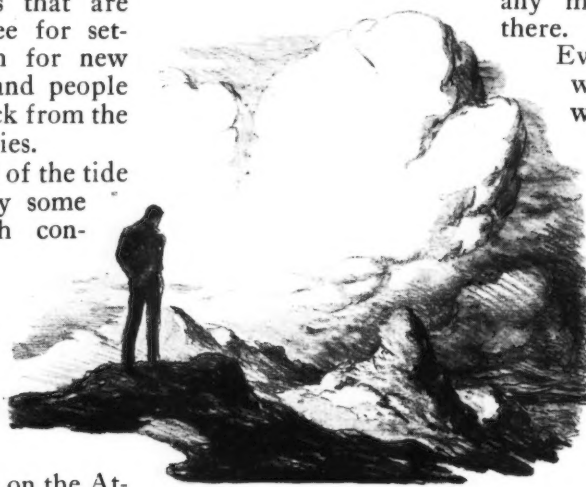
Even if we could, would it be wise to put business in stocks that it might not move — to deny aspiring men and women the privilege of pioneering for better things?

There are thousands of men who if they had remained on the farms could do no more than till an acre or two above the average or harvest a few tons more than their neighbors, yet in other spheres they give employment to thousands, they render service that is nation-wide in its benefits!

**T**O combat anything that we may not fully understand is dangerous; to attempt to stop the progress of civilization is futile.

*To let die out the spark of knowledge that appears in your own mind, may be to neglect your opportunity to homestead on a higher plane!*

*James Clark*



# Community Spirit That Means Business

By D. M. HUBBARD

New Methods of City and Community Advertising Replace Old Fashioned Boasting and Bombast of Boosting. Civic Efforts Now Centered on Selling Peculiar Facilities of a Locality Rather than Seeking to Attract Any Kind of Going Concern.

AS operating expenses go, expenditures for advertising by American cities are not especially impressive. It is their significance more than their dollar bulk that offers a challenge to the forward-looking business executive. Last year the bill totalled around \$6,000,000.

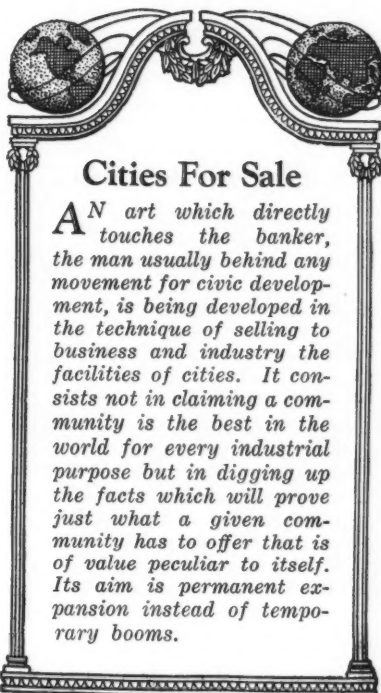
A mere pittance? Yes, considering that it was split among more than 100 communities. Yet that expenditure of \$6,000,000 by cities and communities to attract smokestacks and tourists to new scenes becomes interesting and important when properly viewed as pointing to a new trend of economic thought. It is already creating some new and startling alignments in industry. Inevitably it will bring about many more in the next decade.

What is this trend? How is it affecting business?

Since the flush of profitable war-days faded, business has been literally driven to discover new ways and means to earn profits, all too often on falling commodity prices or dwindling gross revenues. In commanding tones competition has dictated: "Short cuts in the plant. Straighter lines in marketing. Find the location for your plant that: 1, combines the greatest number of factors favorable to low-cost production (access to raw materials, power supplies and labor), and 2, offers proximity to your most important markets. Avoid locations where labor troubles, congestion and poor transportation will slow down your production or distributing."

## An Anomalous Spectacle

THE more active part that leaders of business are taking in civic affairs non-political in character explains their growing interest in city and community advertising. They know that a solid, prosperous, industrial background is to be desired. Their city's acquisition of new industries means a better community morale as well as new sources of materials or new customers for them. As a consequence one encounters the anomalous spectacle today of men long experienced in production, finance, statistical control and the professions suddenly thinking in terms of selling their cities by means of printers' ink.



"What about this business of city advertising?", one hears them inquire. "How can we make it pay?"

Turn the clock backward ten years. Although Atlantic City had conducted some advertising early in the nervous nineties, most city and community promotion in 1919 wore a sombrero and had a sun-kissed tang. It was distinctly a western development.

## Financed by Business

FROM its Pacific Coast laboratories community advertising has swung back East and South. Not so much nowadays a seasonal phenomenon planned to attract vacationists as a studied movement seeking to readjust the industrial map to new conditions. Of course, Maine, Florida and California want their tourists as much as ever, but Atlanta, Louisville, Dallas, Norfolk, San Francisco and the Piedmont Carolinas, to name only a few of the more ener-

getic, are offering to a nation more economic-minded than ever a story of the new importance of industry's location with relation to markets, materials, transportation and labor.

Directly, as well as indirectly, these city and community industrial advertising campaigns are financed by business. And for that good and sufficient reason management must learn to understand and appraise this advertising and its aims on a fair basis.

Strictly speaking there was very little occasion for industrial advertising on the part of the cities up to eight or nine years ago. Business had not begun to grasp the now accepted relation of distribution economies to profits and the relation of scientific plant location to distribution economies. No one talked of decentralizing industry because there was no reason for talking of it.

## Cities Saw Visions

OTHER days, other ways. Economic dislocations in 1920 and 1921 gave business something new and puzzling to think about. They forced many a manufacturer who had never admitted the existence of a selling problem to knuckle down desperately to the job of selling and selling economically or sinking. Many a manufacturer found himself forced to consider, and quickly, the establishment of branch plants or spot stocks in warehouses in order to hold markets. Buyers clamored for unheard-of speed in delivering orders, shrunk to infinitesimal size.

Cities hitherto considered only as jobbing centers for a few counties began to see visions of a new scheme of things in which they would become distributing headquarters for great sectional markets. More and more it became apparent that the tides of industry were ready for new channels.

For years every crossroads hamlet had maintained its local business organization, one of whose jobs was to bring new plants to the town. A worthy aim, but one to which the reasoned and progressive methods of sound business promotion had too rarely been applied. With a newly awakened appreciation of the importance of plant and branch plant location as a solution of distributing troubles, the more far-seeing of the cities

now begin to plan for the growth and prosperity they conceive to be their due. Old rivalries take on a new intensity. New ones spring up over night. Forthwith the new era of exploitation begins . . . truly a new movement geared to a new business tempo.

### Bank Backing Essential

**W**HY should cities advertise? Because business is assigning a new significance to this matter of location and its bearing on lowered selling costs. Those cities offering real advantages to industry must necessarily lose opportunities which scarcely can be hoped to recur, if they do not begin to exploit those advantages. Having proved itself as an economical accelerator of sales in the realm of business, the use of advertising by the forward-looking city is a thoroughly logical development. The prestige of industries already situated in a city which begins to advertise convincingly is raised immeasurably. Their individual selling jobs are made easier as their city becomes better and more favorably known.

But profitable advertising either for a city or an individual business does not just happen! Advertising that persuades and sells economically almost never results from chance, happy accident or the mere expenditure of large amounts of money. Convincing advertising exacts a price, but the measure of that price is not so much dollars and cents so much as sound judgment, honest searching for facts and the desire to sell through truly serving plus creative ability. Back of every advertising success there is: a purpose or aim that is attainable; a sane and sound plan for realizing that aim and creative skill in preparing the advertising.

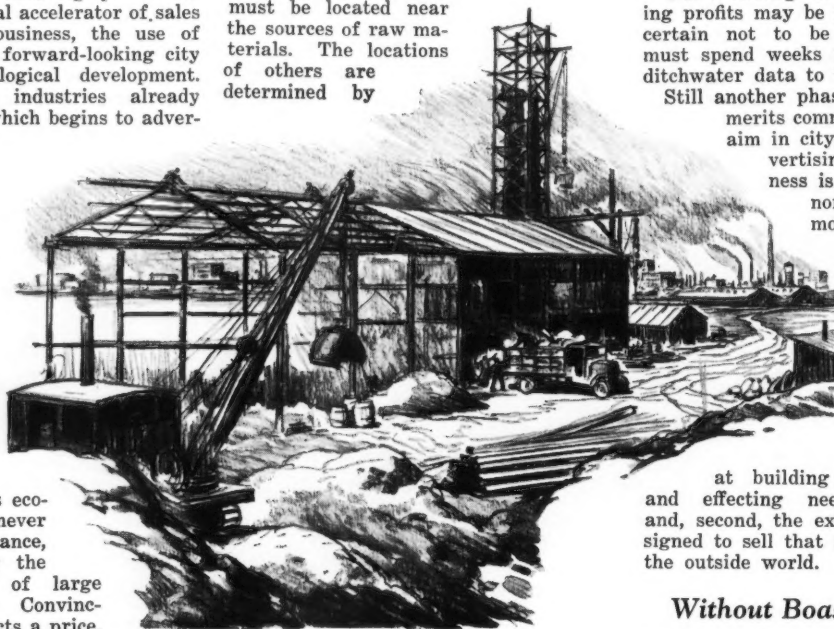
Choosing the right objective need involve no special complications. Mapping out a workable plan for reaching that objective takes many months as a rule, for it includes financing the proposed advertising as well as research. In one week Louisville, Ky., secured pledges of \$100,000 a year for a minimum three-year period from business men exclusively at a cost of 2½ per cent. Cities using the services of organizers from the outside ordinarily take longer and have to pay more for raising funds. Anent this, men experienced in raising funds for community advertising have an interesting and pertinent comment to make.

"Don't try to secure pledges," they advise, "until you have first obtained the indorsement and moral backing of the banks in your city. Get their subscrip-

tions, if you can; but make doubly sure the banks are for you."

### Digging for Facts

**S**UPPOSE the financial questions have all been answered satisfactorily. What then? The community wants new industries. What has it to offer of specific as opposed to general value? Now the need of digging for facts is plainer than before. Now, too, it becomes apparent that the advertising will not appear quite so soon as seemed likely. In any event it should not appear until someone has unearthed every available scrap of information about the city's industrial assets and liabilities. Some industries must be located near the sources of raw materials. The locations of others are determined by



supplies of power and labor. Frequently the scientific location of a factory is governed to a large degree by transportation costs.

Sooner or later the city planning to advertise for industries will convince itself that the only manner in which it can really make its advertising pay dividends is to create an industrial bureau or clearinghouse of information to deal with interested prospects. One of the first cities to organize such a bureau was Louisville in 1916.

### "What Can We Say"

**W**HEN Louisville began to think of national advertising eleven years later, the industrial bureau knew pretty well just what the city had to offer. It knew which types of industry stood a chance of prospering in that city and which types ought not to be encouraged to locate there. Even with a well-managed industrial bureau which had been functioning, Louisville spent a full year in analysis and research work before a line of advertising copy was written. Certainly during the early months, once

advertising has been definitely decided on and the funds have been raised, this analysis may safely be regarded as an end in itself.

Every city or community that plans to advertise hopes to uncover some dominant, interruptive idea or fact which it can use as a peg on which to hang the advertising appeal. Some tremendously significant fact which is not properly appreciated at present. Some exclusive claim to the reader's attention and interest.

"What can we say that will force them to stop and read?" ask the men who must create the advertising itself. "What important asset have we here that no other city can claim?"

The arresting fact on which advertising profits may be predicated is almost certain not to be obvious. Someone must spend weeks poring over dull-as-ditchwater data to find the vital spark.

Still another phase of early planning merits comment here. The true aim in city and community advertising just as in business is the creation of economic wealth. Almost certainly analysis will point to weak spots in the city to be corrected as well as assets to be advertised. Thus the program of action properly splits itself into: first, an internal campaign aimed at building community morale and effecting needed improvements; and, second, the external campaign designed to sell that improved product to the outside world.

### Without Boast or Bombast

**R**ECENTLY I dropped into the office of an advertising agency executive who is directing a sizable city advertising campaign. I found him glancing over copy for a booklet the city plans to use. At his invitation I listened. Everything went smoothly enough until he came to: "Thanks to its city planning commission, Blankville boasts one of the finest park systems to be found."

"Blankville boasts!" The boasting days have gone . . . at least for those cities whose advertising must produce results. Louisville boasts of nothing! Nor does Dallas, Atlanta, San Francisco, Erie or Norfolk. Each of these cities sees something of value to sell to industry. Each is presenting that tangible something as convincingly as possible . . . without boast, bombast or exaggeration in the specific, pointed language of American affairs, 1929 model. Nothing will do more to make advertising truly profitable for our cities than to abandon the star-spangled manner of antiquated boosting in favor of crisp, unrestrained but convincing methods of modern business.

Once it was tacitly approved as a  
(Continued on page 1284)

# Why a Town Faded Out

By DAN. V. STEPHENS  
President, Fremont State Bank, Fremont, Neb.

Story of a Community That Was Prosperous Until a Halfwit Began to Boast of His Bank Account. Wags Filled Him with Fear, He Hid His Money, and the Wise Men Following His Lead Destroyed Prosperity. The Beautiful Town Now a Desolate Place.

**T**HIS is the story of the fading out of the prosperous town of Prajorx in a beautiful valley.

A stranger would not believe that Prajorx was ever a live town, with good stores, garages, banks, churches and schools, but it was. Five years ago it was a splendid country town and everybody living there admitted it. They were proud of Prajorx. They pointed with pride to their two splendid banks overflowing with deposits; to their ten good retail stores filled with prosperous customers; to their four garages overrun with cars for repair and storage; to their two excellent lumber yards busy as they could be filling orders for material for new structures; to their three churches well patronized by a happy prosperous people. Not only did they point with pride to the progress of the little community center, but they pointed to the splendid farm residences, big barns, cross-fenced fields, pure bred livestock and all that went to make a happy and prosperous countryside. There was no valley comparable to that in which this town lay. It fairly overflowed with milk and honey, so to speak.

In short, Prajorx looked as if it were the cornerstone of the state. Its livestock and grain brought into the town large sums of money that paid off mortgages, built homes, bought automobiles, filled the homes with excellent furniture, and made all creation thereabouts sparkle in prosperity and happiness. Farm lands increased in price until the men who owned them counted themselves rich. Prajorx was certainly a beautiful spot in the heart of a beautiful land inhabited by a happy people.

## A Nitwit's Deposit

**T**HAT was the way matters stood up to that unhappy day seven years ago when "Pinhead" Meeker was indulging himself at the soda fountain.

"Pinhead" was a halfwit, a nitwit, "a nut," or whatever you might please to call him. In other words, he wasn't very smart. He had accumulated \$9.50 and had deposited it in the Prajorx Bank. He was very proud of his accumulation and talked much about it. Town idlers gathered around the soda fountain, kidded him about his large bank balance and warned him that he had better watch out lest the bank might be robbed. Not understanding the crude joke he imme-

diately set off to the bank to make sure that his money was safe. He concluded he would take no chances and withdrew his \$9.50.

He then hurried to his home and he hid it in a tin can under the back porch. Old Jim Tightwad happened to be gazing over the landscape from his back porch and spied the halfwit hiding the can and thereupon made inquiry as to

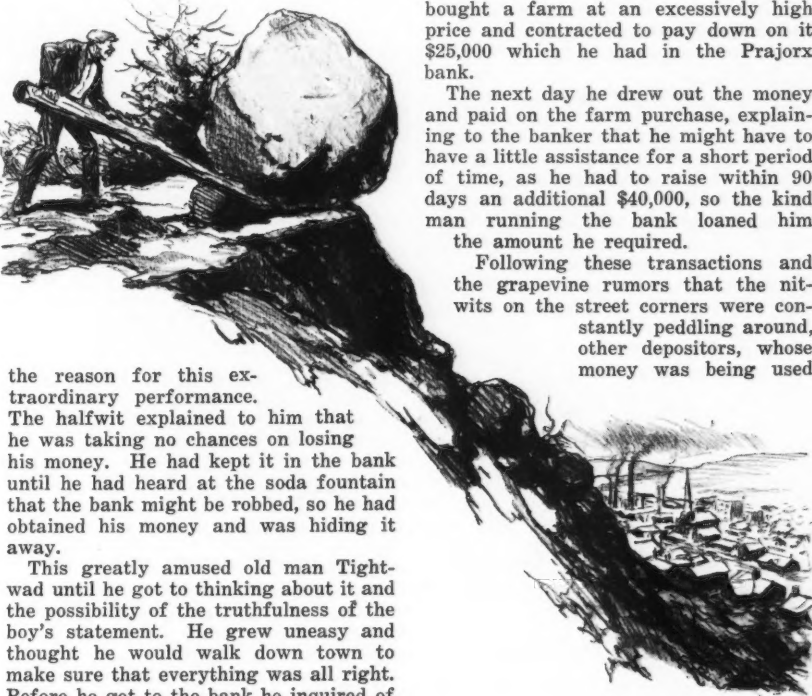
few hundred dollars were recovered, and this went to pay expenses.

## Miser Smith's Scheme

**W**HEN old miser Smith, one of the leading farmers in the neighborhood, heard what old Tightwad had done, he too became alarmed and he thought he would not make the mistake that Tightwad had made, but he would fix it in a much shrewder and better way, so he bought a farm at an excessively high price and contracted to pay down on it \$25,000 which he had in the Prajorx bank.

The next day he drew out the money and paid on the farm purchase, explaining to the banker that he might have to have a little assistance for a short period of time, as he had to raise within 90 days an additional \$40,000, so the kind man running the bank loaned him the amount he required.

Following these transactions and the grapevine rumors that the nitwits on the street corners were constantly peddling around, other depositors, whose money was being used



the reason for this extraordinary performance. The halfwit explained to him that he was taking no chances on losing his money. He had kept it in the bank until he had heard at the soda fountain that the bank might be robbed, so he had obtained his money and was hiding it away.

This greatly amused old man Tightwad until he got to thinking about it and the possibility of the truthfulness of the boy's statement. He grew uneasy and thought he would walk down town to make sure that everything was all right. Before he got to the bank he inquired of several people on the road what they thought about the safety of the institution. There were all kinds of reactions to his inquiry, some of which did not fully satisfy him. So he continued on to the bank and, upon the pretext that he had made the purchase of a farm mortgage, he withdrew \$9,000 he had on deposit and took it home with him.

That night a negro working at the garage robbed Tightwad's home and carried away the \$9,000 in money. Before he could be caught in a city nearby he had thrown several big parties and had bought every colored girl he knew a beautiful ornament of some kind. Only a

for the community's uplift, began to gradually withdraw their money from the Prajorx bank. Finally the bank concluded that it would have to call some of its well-to-do customers to pay their notes. This it did, and gradually it caused a slight check on the community's prosperity. Some of the loans could not be paid at once, but the demand for payment caused considerable worriment among the merchants, who began to curtail their buying and let out their extra help. Some of the local "wise ones," who enjoyed so

(Continued on page 1283)

# Is There Strength in Wide Distribution of Bank Stock?

Many Shareholders Favored as a Policy for Small Country Bank. Journal Inquiry Reveals Sentiment for Wide Distribution of Stock but Against Large Board of Directors. Others Believe Closely Held Institution Can Furnish Best Service to Public.

**W**IDE distribution of the stock of the country bank appears to be a more desirable condition than that of the closely held institution in the same field. A multiplicity of stockholders is considered to be both a business builder and an insurance of the support and loyalty of the community.

However, a large number of stockholders does not mean that a large board of directors is desirable for the country bank. An unwieldy board, some bankers think, is too likely to become a stumbling block to efficient management.

These conclusions seem warranted as a result of an inquiry undertaken by the JOURNAL among bankers in different parts of the country. Their views were asked on the question of which was the more desirable for the country bank—many stockholders or few. Some registered unqualified approval of a small group of stockholders as best for the country bank, but the majority of the opinions received favored a wide distribution of stock.

In raising the question the JOURNAL was not considering the situation with respect to institutions in the larger cities. Conditions in the various financial centers were regarded as altogether at variance from those under which the smaller country bank operates. Nevertheless the new policy of some of the larger banks of reducing the par value of their stock and in many instances thereby obtaining a much wider holding of their shares has found its way into the country banks as well.

## Two of the Best Banks

**B**OTH sides of the question were very clearly set out by Thomas R. Preston, former President of the American Bankers Association and president of the Hamilton National Bank of Chattanooga, Tenn., who said:

"There is ample argument for either side of the question, 'Is a multiplicity of stockholders desirable for a country bank?' It depends somewhat upon local conditions. I think it is both desirable and advantageous for a bank to have its stock widely held. Management and ownership are no longer synonymous terms in this country, and the wide distribution of stock is, in my judgment, an asset in good will.

"I have in mind two examples, one in which the village bank has possibly 300 stockholders. Almost every important man in the community is a stockholder, and it is a wonderful country bank. The directors in this bank are all active, know what is going

on, and take a pride in the institution; the officers consult them frequently, and most of the stockholders are proud of their bank.

"The other bank has only enough stockholders to make up the Board of Directors of five, and one man owns more than two-thirds of the entire bank. It is strictly a one-man bank, and yet it is one of the soundest and best managed banks I have ever known. The chief owner runs it as he thinks it should be run. He pays no attention to his Board of Directors, no more than if he had none. He has never allowed a single director or employee to borrow a cent from his bank, and when he comes to divide up the earnings at the close of the year he reverses the usual practice—taking out his loss he sets up his reserves, some visible and some invisible, then adds a percentage to his surplus and profit account, and what is left he pays in dividends. He has no fixed dividend rate, has never had one.

"I think these are two of the best banks in the United States, regardless of size."

Emphatic endorsement of the value to the smaller bank of a large number of stockholders was given by Wessels Van Blarcom, vice-president of the Second National Bank of Paterson, N. J. He said:

"It is my opinion that in a small city where a new bank is being organized it seems to be rather desirable to spread the stock among a large number of stockholders so that a wide interest is taken in the affairs of the institution. The control of the stock, I feel, should be held by a small group more particularly interested in the welfare of the bank, for the reason that unless the institution is immediately successful interest will quickly die out with the greater number. The interest of this larger body will only be maintained by strenuous efforts on the part of the bank's officers and the immediate paying of dividends which naturally must be kept up. In these days many stockholders are taking no interest in the bank's affairs and do not contribute in any way that one can learn of toward the bank's earning or building up the business. They are quite satisfied to receive dividends and share in the increased value of the stock of a successful bank.

"I concur in the opinion that a large Board of Directors in a small city would be a deterrent, for the reason that an individual's business affairs would probably be quickly spread to his disadvantage.

"My conclusion is that a bank can more likely succeed when its stock has been distributed to a reasonable number of persons who are interested in its welfare and when it is governed by a medium sized (not over eleven) Board of Directors. These men must not be actuated in their decisions as to loans and policies by personal motives, and their standing in the community must be so high and their ethics so well known that they can satisfy customers who are in the same line of business as themselves that proper consideration and fair treatment of their business relations with the bank has been given in each individual case."

## A Doubtful Asset

**A** LONG list of stockholders, on the other hand, is considered to be a doubtful asset, except under peculiar circumstances, by C. O. Holmes, member of the Executive Council of the American Bankers Association and president

of the South Side Trust and Savings Bank of Gary, Ind., who wrote:

"The question is not only pertinent and timely but has proven a stumbling block perhaps as often as any other question of policy, particularly in the smaller banks.

"It so happens that I am analyzing the bank's problems for an old friend in one of the larger cities of Indiana, who is confronted with what to do about a bank which he is about to acquire. Let me quote from a letter just written him: 'You have a long list of stockholders to deal with which, while there may be an element of strength in some ways, in others is a decided element of weakness because it means that no one feels particularly responsible for the success or policy of the institution.'

"In my nearly twenty years of experience, I have either actively directed the organization or assisted in setting up some ten or twelve banks of varying sizes and under varying conditions; that is, rural farm, semi-industrial, or industrial, in some of which we had only a few stockholders, in others a modest list, and in still others a very long list.

"Naturally, under different circumstances, different conditions ought to obtain and what might be of advantage and help in some cases, in others could be much less desirable; in fact, might be detrimental.

"Generally speaking, I would say that a long list of stockholders, except under peculiar circumstances, such as the only bank in a community, is a doubtful asset, particularly if it means that in that list there is no one group that has a sufficient investment to make it imperative for the group to help shape the policy and assume responsibility.

"That is particularly true in smaller communities where personal acquaintanceship becomes a factor and where little piques and jealousies and personal equation, such as demanding courtesies or service because of stock ownership, can be burdensome.

"I have in mind now a bank in another city of about the size of Gary, which has some three hundred stockholders with a capital structure of \$200,000. The resources are some two million, but the bank has grown only about one hundred thousand a year for the last four or five years, largely because no group of stockholders takes enough interest to make it grow. This bank would be particularly unfortunate if there came some local disturbance because there would be no way of rallying those who have stock.

"In another city nearby, about half that size, a bank with \$100,000 of capital and ninety stockholders drifted along for years barely making expenses, until a man who had made some money in other lines decided he wanted to be a banker. He had no experience, but he did have enough money and some shrewd native judgment that insisted upon owning a substantial block of the stock. This he acquired and the whole institution changed in just a little while into one of modest but persistent growth, with a policy that has gradually brought the institution into one of the more respected and substantial in that city.

"Now it is altogether likely that these arguments which seem to us sound for small communities, or centers not so large, might not be so cogent in larger cities. I have discussed the matter, however, with bankers in Indianapolis, Chicago, Cleveland, St. Louis, New Orleans and Philadelphia and in every case where I found the banker was insisting upon a wide distribution of stock, I am frank to say I think he was chasing a will-of-the-wisp.

"The experiences which justified the removing of the bank stock from the exchange (Continued on page 1257)

# Cross Currents in International Investments

By GROSVENOR JONES

**American Capital Is Going Directly into Foreign Industrial Enterprises in Increasing Volume Through Purchase of Stock. Funds from Abroad Are Coming into This Country in Same Way. Effects of This Interchange of Investments Believed Good.**

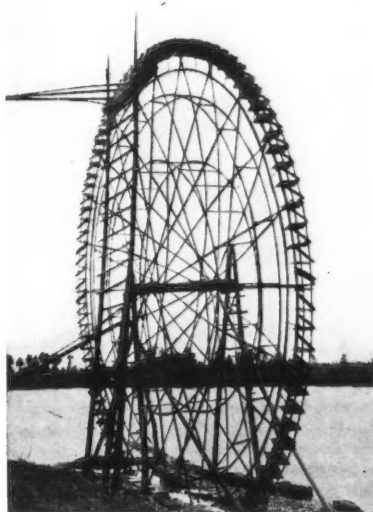
**A**LMOST every week news is received regarding the acquisition of the control or an important interest in some established foreign property—public utility, telephone, manufacturing or mining—or the establishment of a branch plant abroad. These events have occurred so frequently during the last year that many of our people are beginning to wonder what this movement of capital portends for American trade and industry while foreigners are asking the same question with reference to their own economic status.

Within recent months the American and Foreign Power Company has acquired control of extensive electric power companies in China, Mexico, Chile, Brazil, and Argentina. Another American company—the Inter-Continents Power Company—has recently acquired power plants in Argentina and Chile, while the Utilities Power and Light Corporation has joined with British interests in taking over the properties of the Greater London and Counties Trust. The International Telephone and Telegraph Company has obtained control of telephone systems in Buenos Aires, Montevideo, Santiago, Valparaiso, and several cities in Brazil. This same company is still engaged in the giant task of providing a nation-wide telephone system for the Kingdom of Spain. General Motors has bought a controlling interest in the Opel Company, the leading producer of automobiles in Germany. The Ford Company has set up subsidiary companies in England, France, Belgium, and other European countries to manufacture rather than merely assemble its cars.

During the period from 1922 up to the middle of 1928, when foreign governments and corporations were borrowing well over \$1,000,000,000 a year in this market, some critics lamented the fact that American capital appeared to be content with being a mere creditor when it might be a proprietor of foreign enterprises. They felt that our capital would be more profitably employed in enterprises managed and controlled by Americans and that not only would our export trade benefit from such investments but the production of foreign raw materials of key importance to American industry would also be subserved thereby.

Curiously enough, the direct investment of American capital in for-

eign enterprises seems to have increased greatly since the middle of 1928. In other words, as foreign bond issues have declined, direct investments have increased. The higher levels of interest rates that have prevailed during the last nine months have without question greatly restricted the issuance of dollar bonds of foreign governments and corporations but high money rates appear to



*Primitive Power in China  
Huge bamboo irrigation wheel, a  
type of machinery foreign capital  
is replacing*

have no such effect on direct investments abroad.

That direct investments should have expanded so greatly during a period of high money rates in the American market is an indication that the movement is based on special considerations and is inspired by factors other than the superabundance of capital seeking employment abroad. In the first place, it should be observed that in the case of several important power companies and of at least one large telephone company, control or an important interest has been acquired to a large extent through an exchange of stock in the American company for that in the foreign com-

pany affected. Thanks to the special interest which American investors are taking in enterprises of these types, the American company is able to raise the new capital required for the extension of its foreign holdings by issuing bonds or debentures with or without warrants for the purchase of common stock attached, or by directly issuing new common stock—in either case, in large amounts and at favorable rates. The high standing of the American company concerned rather than the merits of the particular foreign property acquired, seems to be the controlling factor in the raising of the new capital.

## The Vogue for Equities

**I**N the case of companies such as General Motors, no recourse to special issues of bonds or stocks is required, since these companies have large liquid reserves available for new investments, which makes them also independent of the money market. This has long been true of the great mining, petroleum, and manufacturing companies—even in the pre-war period when, generally speaking, the United States was a capital-importing nation. Because of the abundance of capital in this country, and particularly the greater affluence of many of our corporations at the present time as compared with the years prior to 1914, it is now easier for an American corporation to extend its operations in foreign fields.

The establishment of branch factories and of mining, petroleum and other enterprises in foreign countries is not a new development. This movement began several decades ago, following the great upswing in American prosperity in the late nineties. So far as Canada is concerned this movement acquired great momentum during the war period. The desire to get behind tariff walls, the necessity of complying with the patent laws of certain foreign countries, or the need of fortifying the position in international trade of the interested American company was the motivating factor in this movement then. This three-fold factor is even more important at this time, since American industry is now more vitally interested in foreign markets for its products or in foreign sources of raw materials for its sustenance. The great expansion in this movement arises

from the facts that American corporations are better equipped financially to invest abroad and that foreign countries offer more favorable opportunities for such investments.

One form of the export of American capital is new. This is the large scale acquisition of shares in foreign corporations by individual investors. The speculative activity that has prevailed in the United States for several years past has spread to the stock exchanges of England, Germany, France, and other countries. This interest in foreign shares has developed in part as the result of the activities of American brokerage houses that have brought such shares to the attention of investors in this country. American investment trusts have also been large purchasers of foreign company shares. The prevailing vogue for equities, so-called — shares instead of bonds—has spread to foreign securities; this partly explains the present lack of interest in foreign bonds.

### British Discomfiture

THE extent to which individual American purchases of shares in foreign companies has proceeded, is evidenced by the recent discovery that Americans now control 60 per cent of the shares of the British General Electric Company. Perhaps the mistaken belief that this British company has a close affiliation with the American company of the same name may have had some influence on this buying. In any case, American investors collectively control the British company—to the discomfiture of its directors, as recent events testify.

Rumor has it that American investors have acquired in a similar manner the majority of the shares in other British companies. In fact, the British are said to be somewhat disturbed over the marked interest which our investors are showing in their securities. This is indeed a surprising reversal of conditions that prevailed in the last quarter of the nineteenth century and in some cases down to 1914, when the British actually held control of some of our leading railroads and of our manufacturing industries.

Acquisition of foreign shares by open market purchases is induced by considerations solely of an investment or speculative character. When control is sought, more direct dealings are resorted to as in the case of the Greater London and Counties Trust or the Opel Company.

That investment rather than control is the chief factor in such individual buying operations is evidenced by the ease with which the Swedish Match Company has been able to finance its acquisition

of match monopolies in a number of foreign countries through its American subsidiaries. Swedish legislation makes it impossible for foreigners to obtain control of any Swedish company. Nevertheless, the Swedish Match Company is able to raise funds freely in this market.

### Striking Phenomena

THE impartiality of American capital is further shown by the fact that the leading rayon producers of Germany—Bemberg and Glanzstoff—and quite recently the great German chemical and dye trust, the well known Interessen-Gemeinschaft Farben-Industrie, have financed their operations in the United States, largely with aid of capital raised in this country.

It is an interesting coincidence that General Motors acquires control of the leading automobile manufacturing concern in Germany at about the same time that the I. G. of Germany establishes an American subsidiary in the United States. It is also interesting to note that European investors have individually bought American industrial, railroads, and public utility shares in fairly

powerful foreign countries may involve us in what they choose to call "economic imperialism," have been heard to complain of investments of the types just mentioned. These investments are not only non-competitive so far as American industry is concerned; they are rather of marked benefit to our industry, for they provide outlets for the sale of American machinery and equipment at the outset and at later periods when renewals or extensions are made. Investments in enterprises that develop the natural resources and improve the transport facilities of foreign countries increase the purchasing power of foreign peoples and make such countries vastly better markets for general trade—not only for ourselves but for the world at large.

### Fear for Foreign Markets

THE development of the natural resources of the undeveloped areas of the world was a tremendous influence in international trade before the war. All nations benefited by this movement—not merely the particular investor and investee nations—as is illustrated by the growth in our trade with Argentina long

before the United States began to invest heavily in that country. This development has been resumed on a large scale in recent years—with the United States taking a leading part in supplying the necessary capital and technical

skill. This country is, of course, reaping many of the initial advantages which such direct investment of capital affords, but the world at large is bound to share in the benefits resulting from the increased production of raw materials and foodstuffs and by the consequent expansion of purchasing power in the countries whose resources are thus developed.

Real apprehension, however, is felt in many quarters with regard to the establishment of American branch plants in foreign countries. There is fear lest the application of American methods to manufacture abroad will result in the loss of American export markets. For example, some fear that by utilizing raw materials as cheap as those in the United States and employing labor that is cheaper, American automobile manufacturing companies operating in other countries will be able to produce cars at prices lower than the prices prevailing in the United States and that in a few years the European branches of American companies will take over the markets now supplied with cars made in the United States—not only the markets in Europe but those in Latin America, Australasia and the Far East.

Ignoring for the moment the fact that certain European countries are now intent upon building up a strong domestic automobile industry and to this end are prepared to go to great lengths—by



*An auto factory at Steyr, Austria, one of the industrial plants of modern Europe*

large amounts in recent years—have in fact returned to the pre-war practice in this respect.

These cross-currents in international finance are indeed striking phenomena. Americans are surprised not so much by European interest in our securities as by the ability of Europeans to buy these securities in considerable volume. Europeans are surprised not at our ability to buy their securities but rather at our willingness to buy them at fancy prices, when American investments offer such great allurements. To the casual observer this interchange of securities seems to be an illustration of the old adage that grass on the other side of the fence looks greener.

No one in this country objects seriously to the investment of American capital in the extractive industries, railroads, electric power and telephone properties or other non-competitive enterprises in foreign lands. Only those who fear that large investments in the less

*A hydro-electric plant at Cordoba, Argentina*



raising import duties, by setting import quotas, etc.—the question may, in all fairness, be asked whether these countries will be able to develop their automobile industry to such an extent that they can export automobiles to neutral markets in sufficient volume to cripple our export trade in such markets. To produce automobiles as cheaply abroad as at home mass production is essential. Mass production is possible in the United States because of the great domestic demand which in turn is a result of the high average standard of living and of the large population which this country has. The population of the United States is nearly twice that of Germany and two and a half times that of Great Britain. The incomes of all classes of our population are greatly in excess of those received by corresponding classes in foreign countries.

### **More Than a Luxury**

**E**VEN if the domestic demand for automobiles in Germany or England could be developed to the point justifying mass production, could the factory system in either country be adapted to mass production methods with a degree of efficiency approximating that attained in the United States? Will the European workman, individualist that he is, take to the moving platform as the American workman has done? Or will the European employer be ready to offer to labor the necessary inducements in the form of higher wages, shorter hours of labor, etc., which have secured the effective cooperation of workmen in American factories?

Whether these queries be answered in the affirmative or the negative, it is safe to say that considerable time will be required to implant such revolutionary methods of production in countries whose industries are organized along quite different lines.

There is also the possibility that, as the prices of domestic cars are lowered

through efforts to introduce the American system of production, and as European countries come to regard an automobile as something more than a pleasure vehicle or a luxury for the favored few, the European automobile industry will be kept busy supplying the domestic demand. Meanwhile, with the building of highways in the newer countries, on which only a beginning has as yet been made, and with the improvement in the standards of living which will come about through the opening up of remote areas in those countries and through the exploitation of their natural resources, the markets for American-made automobiles will probably expand to such an extent as to more than compensate for the curtailment or loss of present sales to European countries which may have developed their own production of automobiles.

Incidentally American manufacturers of metal working machinery should benefit from the establishment of automobile plants in foreign countries, for they have developed special, patented types of machinery needed for this industry. If the European automobile industry does be-

come important, it will require increased quantities of raw materials from many lands and such additional purchases will contribute to the prosperity of other countries and make them better markets for many classes of commodities, including automobiles themselves.

**W**HEN American manufacturers of agricultural machinery, sewing machines, telephone equipment, radiators, photographic equipment, etc., established branch plants in Canada and Europe prior to the war, there must have been misgivings regarding the loss of export markets and the setting up of foreign competition similar to those that now arise in the case of automobiles. Hundreds of American branch plants in varied lines of industry have been established in recent years just over the border in Canada. And yet, American industry has continued to expand its production in practically every line and has enjoyed exceptional prosperity. Of course, there are limits to the extension of branch factories in foreign countries but the American industries most vitally concerned can be depended upon to fix the limits to such extension in the proper manner, for the bulk of their investment after all is in the United States. If American manufacturing concerns establish plants abroad, it is safe to say that they are impelled to do so because of tariff or other special considerations. The home market will always remain the best market of American industry and self-interest will insure that this market is adequately safeguarded.

With European companies occupying a prominent position in the American rayon industry and with the entry of the Interessens-Gemeinschaft into the American chemical industry, Europeans might feel uneasy about the actual or potential loss of exports of rayon and chemical products to this country but it is doubtful whether anyone in Europe is seriously concerned about this phase of the matter. So far as can be seen, Americans should not be unduly exercised about such an "invasion," since such enterprises, if they succeed here, probably have some contribution of technical skill or ability to offer to our people and

*(Continued on page 1282)*

*Testing track for automobiles on the roof of a factory at Turin, Italy*



# EDITORIAL

## *The Right of Succession*

**T**HIS issue of the JOURNAL contains an article by Thomas B. Paton, General Counsel of the American Bankers Association, that is of great importance to bankers everywhere.

He presents the important decision of the Supreme Court of the United States rendered last month in the Worcester County National Bank case dealing with the right of succession in bank mergers and interprets its force and effect.

The ramifications of the decision are many. It falls with unequal force in the different states, from Massachusetts on one extreme where the appointment of an executor is a judicial matter, to California where the state law having definitely provided for and legalized the right of succession among state institutions, the decision in the Worcester case probably will make little difference.

As the effect of the decision in each state therefore depends upon the state laws, a careful reading of Judge Paton's article is desirable.

## *Comptroller Pole's Proposal*

**I**N an address before the convention of the Maryland Bankers Association in Atlantic City in May, John W. Pole, the Comptroller of the Currency delivered a pronouncement which is one of the relatively few important statements that have come from Washington sources in recent months. He expressed the conviction that the time appears opportune to re-examine the basic structure of the entire banking system of this country and to formulate a new banking policy to meet present-day conditions.

He also announced his intention of seeking the best advice obtainable from experienced bankers and economic experts as to what should be done and how Congress should set about to do it.

The idea that a re-examination of the basic structure of American banking would be wise is not new. Others have expressed it with more or less vigor for several years. But Congress looks upon the Comptroller of the Currency as the official Government banker in matters of policy. Congress is accustomed to the Comptroller. His office was functioning long before the Federal Reserve Board was thought of. When the Comptroller speaks it is the habit of Congress to harken.

Most bankers have been expecting that sooner or later there would be an overhauling of the basic banking laws of the United States. Many are of the opinion that there is need for a new policy to meet, or at least to adjust banking to present day conditions. By present day conditions are meant much more fundamental questions than the existing level of rates. Both the National Bank System and the Federal Reserve System have problems resulting from the evolution in banking. And possibly the greatest of

the problems that has arisen is seen in the three-sided picture presented by unit, branch and chain banking existing side by side.

As a result of the evidently carefully considered address made by the Comptroller in Atlantic City it is safe to say that the first definite step has been made toward a new inquiry into the organic acts which are the foundations of American banking.

## *First Causes*

**H**OW interesting is any little story telling us how some commodity or factory waste has been converted into wealth—how some by-product has with the turn of time and events become the main, or at least the most profitable, product of a factory or a commodity class!

And yet, at strange variance with that interest is the lack of interest in the waste of human life in the United States, where the fatal accidents now number 95,000 per year.

In our own estimation we are an intelligent nation, we are wonderfully ingenious in saving from oblivion various scraps of cloth, and iron, and tin, and grease, but with all our ingenuity and all our vaunted ability to attack and solve great problems, we day by day read—with the fatalism of an oriental—of the waste of human lives with a cash value, estimated by Secretary of Commerce Lamont, to be \$3,200,000,000.

Why this indifference and this fatalism?

From scientific researches great good and great wealth have come. Why not, in this age of research, an honest examination as to the real reasons for the indifference and the callousness of public opinion over the annual slaughter of 95,000 human beings in accidents?

No time need be wasted on the causes of accidents, nor in segregating them into various classes, for there are statistics and to spare under that heading.

But why is it that in this month of June, 1929, this intelligent nation, with brains and capital and power for everything else, can have only a mild and indifferent interest in the fact that during the next twelve months nearly 100,000 will be killed?

Why marvel at the abandon of a Genghis Khan, or a Napoleon in destroying human life when the average American individual is complacent and indifferent—and in consequence in some degree responsible—for a slaughter which is of comparable magnitude!

There is plenty of money for philanthropy. A little of it might well be used in examining into the causes of public indifference and public callousness.

There is plenty of money for profitable investment. A little of it might well be employed to ascertain what it is that makes an otherwise intelligent people so economically stupid.

If it is that Pleasure is King, and he who gets in the way of pleasure must die, let us face that fact.

If it is that Profit is King, and that profits must be

built on lives as the conquerors of old trod upon the bodies of their victims, let us face that fact.

If it is that the high standard of living can be kept high only through human sacrifice, let us face that fact.

We have gone too far and too long with rattling statistics of results. Now let us have, with brutal frankness—for this is a brutal business—something about the first causes—not the mechanical causes but those causes which lie in the hearts and the minds of men and women!

That is where these accidents spring from, and there also is the abiding place of that Indifference which permits the slaughter to go on, gathering speed and magnitude as it goes!

### *Credit and the Senate*

**D**EMANDS for investigations into the brokers' loans situation in the form of resolutions introduced into the Senate are beginning to fall over one another. They have come to be expected every time there are new developments in the encounter between the Federal Reserve Board and the stock market.

Senator La Follette of Wisconsin blazed the trail for this kind of resolving nearly two years ago. He was followed more recently by Senator Heflin of Alabama. On the same day in May Senator Thomas of Oklahoma and Senator King of Utah introduced resolutions directed against the use of reserve credit for stock speculation.

The Utah Senator's resolution is much broader in scope than the others. But they all proceed under the same general theory that the machinery of credit is something that can be adjusted in the atmosphere of impatience that sometimes accompanies a Senate resolution. So far these resolutions have served merely to provide copy for the financial news and comment. Some day one of them may "take" unless there is first a threshing out of the banking and credit problems of the country as a prelude to conservative and scientific lawmaking.

### *Increased Velocity*

**D**URING the past five or six years there has been an increase in the velocity of the turnover of credit, due to improved transportation and communication, scientific control of inventories, the continuation of the simplification movement and the accelerated turnover of commodities. Business has thus developed a new degree of economy in the use of credit, which may be set down as a characteristic of the period.

These are findings of President Hoover's committee on recent economic changes in the United States which has just recently made public its report. Superficially the committee would seem to have stated the obvious. Yet the increase in the velocity of credit turnover is one of the last of various aspects of American prosperity to come in for anything like general recognition.

The epoch-making mechanical and managerial improvements in commerce and industry of the last few years are now accepted elements of the economic

structure. They have put America on a new plane and progress is at a new velocity. What has been but slowly recognized is that these developments in the realm of business have produced changes in the mechanics of credit. Credit is also on a new plane.

Nevertheless in all of discussion, debate and controversy that has been going on over the credit situation in the past year or two the undercurrent of suggestion has been almost wholly in the direction of bringing things back to where they used to be—to normal. And then what?

No one wants to bring business back to where it used to be—to the old levels. The purpose of the inquiry made by Mr. Hoover's committee was in reality to seek the reason for prosperity, such as America has been enjoying, in order that the country might remain on the high places. To go back to the old normal is to step down.

If there is an increase in the velocity of business there must be an increase in the velocity of credit. The two go hand in hand. One can pull the other up or down. Therefore in the consideration of the credit problem it would seem but logical to strive for the proper adjustment of rates and supply to the new velocity of business. A readjustment to new conditions is always a struggle, but the readjustment process is progress. Failure to readjust breeds decay.

### *Archaic Proceedings*

**A** DECISION in what has been called the lawsuit of the century—the O'Fallon case—has at last been handed down by the Supreme Court. Just what the court has decided does not appear to be altogether clear. However, the result is to send the case back to the Interstate Commerce Commission.

In due course the commission will make a new finding of the valuation of the St. Louis and O'Fallon Railroad for the purpose of recapturing excess earnings under the provisions of the Transportation Act of 1920. Perhaps the commission will use some other railroad for the experiment of whether its valuation processes and the weight given to reproduction costs at present day levels will meet the test of examination by the Supreme Court.

In either event the question of railroad valuation will again come before the court. The commission may be right next time or it may be wrong. If it is wrong then the whole thing starts all over again. The greatest lawsuit of the century may even hold the same distinction in the next century.

Meanwhile there is a great army of investors in railroad securities, whose ranks include many banks, who must content themselves with a state of uncertainty as to the value and earning capacity of the properties in which they have placed their funds. Such a state of uncertainty does not add to the attractiveness of a class of securities, even when they have long been looked upon with favor.

Loose legislation is the root of the trouble. The drafting of statutes is a difficult business at best. But it is always possible for Congress to make its meaning clear by amendment. It seems such an archaic proceeding for the Supreme Court to decide, after nine years, whether the Interstate Commerce Commission was doing something the way Congress wanted it done when Congress has known all along what the question in dispute was and that it was in doubt.

# Radio Blocks the Getaway

By RALPH L. PETERS

**Police Radio Nets Trap Bandits, Burglars and Bank Robbers. Crime Warning Flashed to Cars Equipped with Receiving Sets Makes Arrest of Crooks a Matter of Seconds. New Protection System Likely to be Adopted by Cities Throughout Country.**

**P**OLICE work has hit a faster pace in Detroit in the last thirteen months than ever before anywhere. Arrests have become a matter of seconds in many instances as captured bandits, racketeers, prowlers, and gunmen have come to realize.

During the last thirteen months the Detroit police have had eight high-powered motor cars equipped with radio receiving sets and loud speakers. The crews of these cruisers, directed by orders broadcast from the police radio station, have made 650 arrests. Some of these have been made within thirty to sixty seconds after the warning was flashed through the air by radio.

The use of radio has not stopped all crime in Detroit, not that it has stopped all bank robberies. That point has not been reached. It is significant, however, that in some of the precincts where radio-equipped cars patrol the streets crime has decreased at least 30 per cent by police estimate.

Before the advent of radio, there was no means of communicating with the cruisers after they left their precinct stations except by the flashing of the lights atop the police call boxes or waiting until one of the members of the crew reported to his station by telephone. This often meant a delay of several minutes, possibly a quarter of an hour, in getting the report of a crime to a cruiser.

## Plugs In on the Air

**P**OSSIBLY the cruiser patrolmen would be within a block or two of the scene of a crime but have no way on knowing of it. If the cruiser had been sent on a call, there was no way of reaching it with another message un-

til the man in charge called in to report on the first.

It is different today. From four to six seconds after the report of a major crime has reached the police dispatcher at headquarters, every radio-equipped police car in the city has received the flash simultaneously by radio.



*Broadcasting room of the Detroit Police Department radio station*

The police dispatcher plugs in on the radio station, located miles across the city on Belle Isle, automatically throwing the station on the air. He gives the alarm, which is repeated after him several times by the radio operator to be certain the men in the automobiles receive it. One or more of them, depending on the nature of the crime and their location at the time of the flash, roar off to the scene of the reported crime.

## Summoned by Radio

**I**F some cool-headed bank officer or employee summons the police at the first indication of a holdup, instead of several seconds after a bandit has fled, the chances are growing better every day

that a police automobile summoned by radio will arrive at the bank in time to trap and capture the gunman.

No more startling demonstration of the efficiency of radio has been given in a concerted sense than that several months ago at the General Motors Building. It was just one minute after noon

when a police signal flash on a switchboard showed that a finance company on the fifteenth floor of the building was being held up. The police dispatcher at once put the warning on the air.

All of the cruisers were blocks away from the scene of the reported holdup at the time. Scarcely had the words left the dispatcher's mouth before six of them began racing from as many points toward the building.

Ninety seconds after the warning had been given, cruiser No. 7 had reached the scene, the members of its crew, four men including a sergeant, armed with shotguns, revolvers and tear gas bombs, No. 9 and No. 6 slid to a halt with squealing brakes a few seconds later, and then up sped No. 10. From Police Headquarters and the precinct police stations came three other police cars and crews.

## Officers Opened Fire

**N**O sooner had they arrived than they learned the alarm had been set off accidentally. Two other cruising police cars, still speeding across the city from outlying precincts, were halted by the radio operator and returned to their precincts. The four cars that had reached the scene resumed their patrolling of the streets. It had been a false alarm, but an impressive demonstration of the efficiency of the radio system.

*(Continued on page 1265)*

# How the Budget Came to Santo Domingo

By E. ROSS BARTLEY

Secretary, Dominican Economic Commission

**American Experts Place in Santo Domingo a Modern System of Government Financial Control. Plan Is an Improvement on United States Budget. Results Are Expected to Free the Republic from Supervision of Customs by This Country and Aid Credit.**

**S**ANTO DOMINGO, traditionally known as "the land Columbus loved" and actually the land the Great Discoverer chose as his last resting place, is well on its way toward becoming the first independent nation of the world with a modern and scientific budget and accounting system.

This, in brief, is the outstanding accomplishment of the Dominican Economic Commission, headed and selected by General Charles G. Dawes, which in April spent three crowded weeks in the Dominican Republic. Invited as private citizens and working without even semi-official status, the experts who made up the Commission left for the consideration and guidance of the island republic of the Caribbean an accounting and budget system superior to that of the United States Government and possibly destined to serve as a model for other Latin American nations.

The nearly 200-page report which former Vice-President Dawes, as Chairman of the Commission, handed to President Horacio Vasquez on April 23 presented in addition to draft form budget and accounting laws two other recommended legislative acts—a law of projected public improvements and a law of finances, the latter a revision of the old Dominican Act to fit the proposed new national financial structure. All four of these recommended acts were passed without change by the Dominican Congress on May 2, nine days after their presentation, an example of expedition as noteworthy as the three-weeks speed record of the Commission. Furthermore, coincident with favorable action by the Dominican Congress, President Vasquez appointed the officials necessary to administer the new laws, namely, a Budget Director, a Comptroller and Auditor General, and a Chief Coordinator.

## Toward Dangerous Shoals

**T**HE American experts further recommended a reorganization of the executive departments of the Dominican Government "to render possible a larger measure of efficiency in administration and greater economy in operation"—a reform which most students of government agree is urgently needed in the American Federal governmental system.

Tying in with these recommendations were suggestions in connection with the Republic's rather widespread and perhaps too ambitious system of public works; with the budgetary relations to the national government of the municipalities or *ayuntamientos*, which in



*The Columbus Monument, Santo Domingo*

Santo Domingo, as in most Spanish-founded nations, have a direct relation to the central government; for repeal of special laws creating continuing appropriations which were found to be sapping the financial strength of the Republic, and studies on motor transport and foreign trade.

All of these had to do with the permanent structure which the Commission recommended. First and foremost, however, was the task of balancing the Dominican budget.

Santo Domingo, which within its 19,000 square miles—an area slightly less than that of the state of West Virginia—has great natural resources, was in reality headed toward dangerous financial shoals when the American Commission arrived in its capital of Santo Domingo city on April 2. President

Vasquez and his cabinet, as well as the leading business men of the Republic, were in a measure cognizant of conditions, but due to a continuing lack of a centralized and proper accounting system, the exact financial status of the nation was unknown.

## Heroic Measures

**I**T took two members of the Commission nearly all of the three weeks, working Sundays and many nights, to ascertain the true financial condition of the Republic. When found, it astounded even the Dominican cabinet members, for in black and white stood revealed the fact that outstanding appropriations as of Jan. 1, 1929, including the 1929 budget, exceeded the expected budget resources of the government for the year 1929 by approximately \$4,127,000.

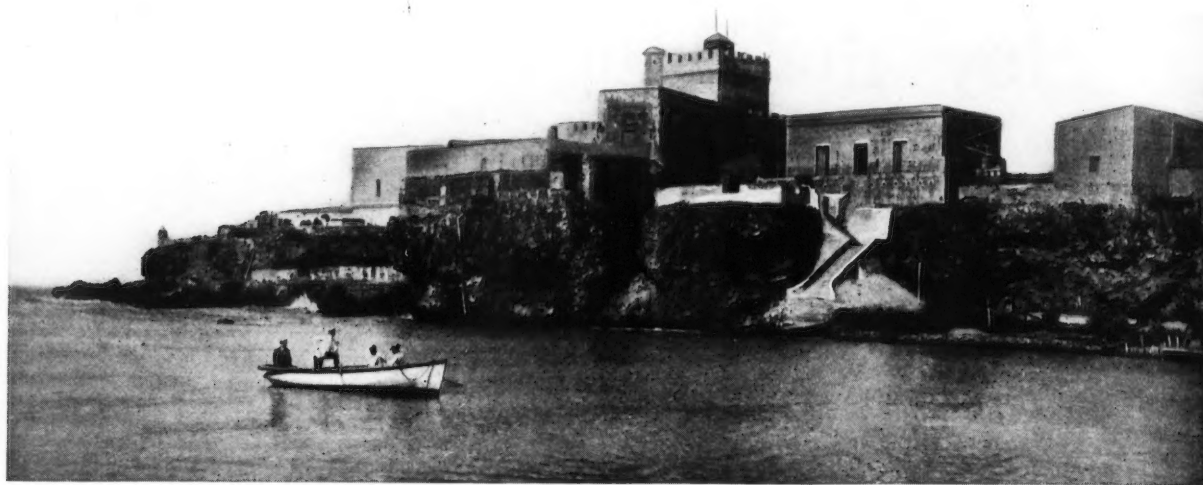
An apparent annual deficit of more than \$4,000,000 in a country having an income of less than \$12,000,000 a year is a serious matter. The future was even more dark when there was taken into consideration that in 1930 interest and sinking fund charges upon the Republic's outstanding indebtedness of \$20,000,000 would amount to \$2,362,500.

The situation as revealed called for heroic measures. These the Commission recommended be applied in the form of repeal of all except \$700,000 of the continuing appropriations, thus bettering the budget position to the extent of approximately \$1,788,000. Suggested economies in the governmental department organization, outlined after examination of the current budget item by item accounted for further savings of \$1,570,000, leaving the estimated prospective deficit \$769,000.

Still further methods of economy were arduously searched out and the \$4,000,000 deficit for 1929 was turned into a possible surplus for 1930 of \$1,562,000, a sum more than sufficient to take care of the increased sinking fund due in that year on the exterior debt of the Republic.

## Given a Free Hand

**S**UCH in summary was the work of the Commission in eighteen working days in a land where differences in language made expedition difficult and



*The old fortress at the mouth of the Ozama River guarding the entrance to Santo Domingo City*

where a tropical sun and the habits of centuries do not make for haste. In point of time and problem involved, a record was established.

This was possible, first, through selection of experts for the Commission's personnel and, second, by thorough preparation. Given a free hand in the selection of the Commission, General Dawes invited the following to associate themselves with him:

Sumner Welles, of Washington, D. C., former American Commissioner to the Dominican Republic, who, as an intimate friend of President Vasquez, suggested that Dawes be invited to undertake the mission, and who, after the former Vice-President had accepted, carried on the preliminary negotiations.

General James G. Harbord, of New York, president of the Radio Corporation of America, whose military experience in the Philippines afford an insight into the Spanish governmental system.

John Stephen Sewell, of Birmingham, president of the Alabama Marble Company, an assistant to General Dawes in the institution of the United States budget system.

Henry P. Seidemann, of the Institute for Government Research of Washington, an assistant to General Dawes in the establishment of the United States Budget Bureau and an expert in government budget practices and accounting.

Henry C. Smither, of Lawrenceville, Ill., vice-president of the Indian Refining Company and former chief coordinator under the United States budget system.

J. Clawson Roop, of Chicago, former assistant director of the United States Budget Bureau.

Theodore W. Robinson, of Chicago, vice-president of the Illinois Steel Company.

John F. Harris, of New York, senior member of the firm of Harris, Winthrop & Co.

Harry B. Hurd, of Chicago, senior member of the law firm of Pam & Hurd and a legislative drafting expert.

Francis J. Kilkenny, of Chicago, former assistant to the director of the United States Budget Bureau.

Rufus D. Beach, of Chicago, attorney.

The Commission thus embraced a combination of those versed in governmental budgeting and of business men. Two or three members of the mission could have individually made up the Dominican deficit by writing a personal check, and nearly half of the dozen members paid all of their own expenses. The remainder received only a nominal salary or none at all. The entire expense to the Dominican Government, including transportation, clerk hire and all, was under \$10,000.

### No Golf Clubs

**T**AKING a leaf from his World War experiences, and combining with it procedure followed in instituting the United States budget system in 1921, General Dawes adopted a semi-military discipline. His initial edict was "no wives," declaring that he had mapped out an outline of work which would permit of none of the social functions or sight-seeing expeditions dear to feminine hearts. The second order separated from the Commission's personnel a valet which one of the members, long accustomed to such personal service, had sought to take along. And for a parting shot as the Commission sailed from New York, General Dawes announced: "We take no golf clubs."

Shorn of golf clubs, valets, and other impedimenta, the Commission was called into session by its chairman even before the Jersey Coast had faded in the haze. An office was fitted up aboard ship, and for four days regular office hours were observed, with night sessions running until near midnight. Commission members who in the flush of the first hour engaged deck chairs glimpsed the sun-drenched shores of Santo Domingo before they even saw the little luxury which they had engaged and for which they had paid.

Carrying the program of speed and expedition ashore, General Dawes in-

formed President Vasquez in their first conference that he would prefer that no social functions be held in the Commission's honor or for the Commission until its work had been completed. A Commission that did not wish to be dined and wined! Such was unthinkable to the Dominicans. A Commission from "The Colossus of the North" not talking of further loans and in part paying its own expenses! This, in the minds of the people of Santo Domingo, was a reversal to the days of fairies.

### Through Siesta—Less Days

**T**HUS, amid native amazement and searching for the proverbial wood-pile inhabitant, the Commission set to work in offices assigned to it in a building erected half a century before the Pilgrims set foot on Plymouth Rock and located within a stone's throw of the supposed resting place of Columbus. There, through siestaless days and nights scant of sleep, was built and mortised into the old Spanish and United States marine system of governmental administration the newest in governmental financial control.

While those members of the Commission proceeded along the lines in which they were experts, General Dawes himself prepared the way for the completed plan. He announced at the outset that the Commission would adhere strictly to the purposes as defined by President Vasquez in his invitation, to-wit:

"To recommend methods of improvement in the system of economic and financial administrative organization, both national and municipal, for the installation of a scientific budget system and for an efficient method whereby the Government may control all of its expenditures."

To that end it was made plain that the Commission would not concern itself with any question of internal or external policy, and not as to the ways of obtaining revenues, but only as to the manner of spending the money raised. It was made particularly plain that the Commission would have nothing to do with questions of a loan policy for the Republic. It was concerned,

(Continued on page 1266)

# Bonds for MARKETABILITY *and* STABILITY

THE upper chart at the right represents the condition of a state bank in Illinois as reflected in a recent statement. The distribution of assets indicates that this institution has a well defined and—comparatively speaking—a creditable investment policy. There is one particular, however, in which the bond reserve of this bank falls short of its maximum possibilities. Despite the liquidity which the bond reserve affords, it is not designed to provide adequate protection against the possibility of a period of declining price levels.

A change in policy with reference to a portion of the bond reserve will provide this bank with all the protection it is reasonably likely to need against a less favorable market for long-term bonds. This change will go a long way toward eliminating the elements of risk involved in changing interest levels—a risk which even many experienced investors have been accustomed to look upon as unavoidable.

This instance emphasizes the importance of competent counsel, even to the bank which knows it has a sufficiently large and liquid reserve of sound bonds.

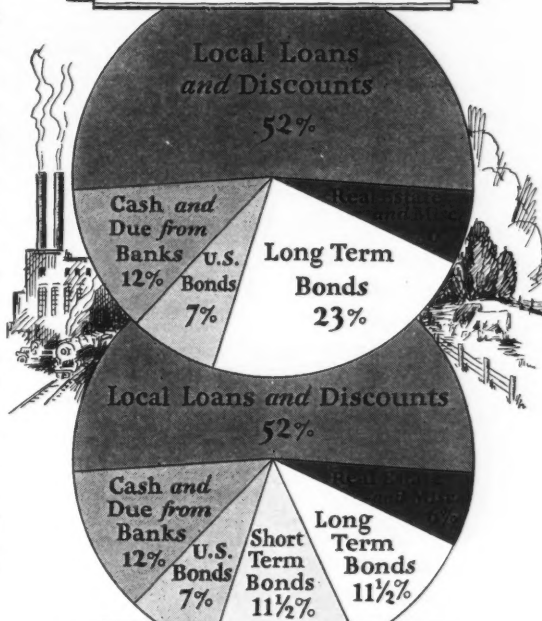
## The Problem of Your Bank

The problems of each bank are individual. These problems can best be solved through a co-operative relationship between the commercial banker and a competent and reliable investment house. The one knows—or can readily determine—what his bank needs; the other has an expert knowledge of bonds and knows how they can most advantageously be combined to meet a given set of requirements. An interesting folder, *Sound Investment Practice for the Commercial Bank*, will be sent on request.

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IN YOUR SITUATION, what qualities do you require besides safety, liquidity and income? . . . How can you provide yourself with protection against the possibility that you may have to liquidate a portion of your bond holdings prior to maturity—and in an unfavorable market? . . . What types of bonds and what special structure in your account are logical as protective measures against the particular forms of risk to which your bank is subject?

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**D**URING the past few years Postum Company, Inc., has brought together under its ownership and management eleven other food manufacturing companies. More than twenty products, representing many phases of the food industry, are today made and sold by the Postum Company. During this period of growth, the name of the larger organization has remained the name of its original product—Postum.

The company has outgrown its name. The products of the company are so varied, and the enlarged

organization has achieved such an important position in the food industry, that it seems desirable now to adopt a name more in keeping with the wide scope of its activities and with the plans of the company for future development.

Therefore, Postum Company, Inc., proposes to take a new name—General Foods Corporation. A letter has been sent to the more than 21,000 stockholders of the company, asking them to vote on this change of name.



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# The Keeper of the Nation's Credit

By WALTER EARL SPAHR

Professor of Economics and Banking, New York University

Public Fails to Appreciate Power of Federal Reserve System.  
Demonstrated that Law Authorizes Control of Uses of Credit  
As Well as Quantity to Be Made Available. Opinion Advanced  
that Full Force of Restrictive Measures Is Not Yet Evident.

**P**UBLIC opinion seems to be in a state of genuine confusion with respect to the relationships which may and do exist between the Federal Reserve Board and banks on the one hand and the stock market on the other. This is due, apparently, to three factors.

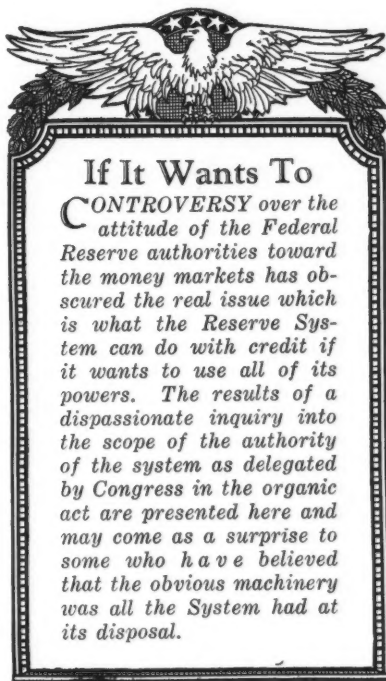
The first of these is the youth of this country's centralized banking system. Because of this factor few well-developed traditions have been evolved relative to the true functions of the central banking institutions with respect to credit control and the speculative market as it now exists. In brief the Federal Reserve Board and banks have not made for themselves a place sufficiently definite in the fields of banking.

## Old Beliefs

**A** SECOND factor is found in the continuation of early divisions of opinion. There appears to be ample ground for believing that many of the divisions of opinion which manifested themselves during the period of the framing of the Federal Reserve Act have continued down to the present time in a greater or lesser degree. The attitudes of hostility and skepticism, for example, which showed themselves during 1912-1913 still show themselves in some quarters today. They are seen in the attitude and statements of those who insist that member banks are better off if left alone, that the policy of *laissez faire* is the ideal and proper one, that the member banks know best what should be done, or that the Board and Federal Reserve banks, in any event, are powerless to control the speculative market.

A third cause for the present confusion in public opinion is found in the lack of knowledge of the nature and functions of the System. A perusal of the various comments which have been appearing daily reveal unmistakably that much of the confusion in public opinion can be explained on no other ground than lack of understanding of the Act, Regulations of the Board, and the past practices of the Board and the reserve banks. Some responsibility for this general vagueness, it is true, rests with the Board and the reserve banks which often issue statements hesitatingly and guardedly and in some cases say little which is not open to conjecture or to more than one interpretation.

In a general way there are three outstanding questions at issue with re-



spect to the nature and functions of the Federal Reserve System on which opinion is divided: There is the question of whether the Federal Reserve Board and the reserve banks are concerned with credit control quantitatively or qualitatively, that is, whether it is their function to control only the total amount in existence or whether it is their duty also to examine and attempt to regulate the particular uses to which the credit is put. Involved in the latter part of the question, of course, are all the considerations bearing upon the attempts to control the use of Federal Reserve credit in the stock market.

A second question which has played a prominent part is whether the speculative stock market has really diverted credit from the so-called "commercial and business purposes" to the stock market. The third important and greatly debated question is whether the Federal Reserve Board and the reserve banks have the power and mechanism with which to control the use of credit in the stock market, conceding their right to do so.

Some prominent economists and bankers have taken an interesting position with respect to these questions; among them may be mentioned such persons as Professors Cassel and Ohlin of Sweden and some economists and bankers of almost equal prominence in this country.

## Central Bank Functions

**R**ELATIVE to the first question both Cassel and Ohlin have insisted that it is the function of the Federal Reserve Board and banks to control credit quantitatively only, not qualitatively, and that it is not their duty to attempt the regulation of speculation in securities. According to Professor Cassel:

"The real test of the wisdom of the discount policy pursued by the central bank is whether the level of prices in the country remains constant. . . . For this reason it is wrong to impose upon the central bank other duties, which might possibly affect its discount policy in such a way as to render it impossible for it to accomplish its principal task. A function with which, as we often see, people wish to saddle the central bank, but which is at bottom foreign to it, is the regulation of speculation in securities. . . . But this is not the concern of the central bank."

Substantially the same view has been expressed by Professor Bertil Ohlin, although he was more guarded in his statements. In this country some outstanding bank economists and officials subscribed to the same doctrine.

With respect to the second question these authorities also maintained that credit was not being diverted to the speculative market and that commerce and business were not being penalized in any sense. On this point Cassel insisted that "this notion, that the Stock Exchange on a rise in the price of stocks and shares absorbs capital from other parts of the economic system is . . . entirely fallacious." In pushing his contention he even went so far as to say that "there is rather a reason for holding the opposite view that the upward movement on the Stock Exchange has resulted in a larger supply of capital for productive purposes than would otherwise have been the case. . . . No real insight into what has occurred can be obtained until people have realized that the bank loans which, formally speaking, were raised primarily for the account of the Stock Exchange, have nevertheless in the last resort been put into the service of real industry and commerce." In this country there are those who agree in general with Cassel's view.

One outstanding economist and

banker, for example, stated with respect to the increase in brokers' loans that "it seems clear that such an expansion does not withdraw credit from industry in any important degree, nor is it a demand upon credit in addition to that made by industry. . . . It is not withdrawn from industry, but is only one of the channels by which credit flows into industry."

Relative to the third question at issue the various and miscellaneous comments which appear in the financial columns of newspapers and periodicals, as well as the action of the speculators in the market, indicate that there are a great number who believe that the Federal Reserve Board and banks have no means of controlling credit in the market should they seriously attempt it. Occasionally one may hear the comment that the System is "impotent" or it has "broken down" with respect to such control. This belief, combined with the belief held by many that it is not part of the policy of the System to attempt control of such a market, has been an important factor apparently in maintaining a persistent bullish market—despite the occasional collapses—over such a long period of time.

### Credit Control

**T**O insist that the Federal Reserve Board and the reserve banks do or should concern themselves only with the quantitative aspects of credit and not with the qualitative is to acknowledge a lack of understanding of the Federal Reserve Act, the position taken by the Board in its reports and rulings, and of past practices of the Federal Reserve banks. The Act is framed for the express purpose of accommodating agriculture, commerce, and industry, and the use of Federal Reserve credit for speculative purposes is expressly and specifically prohibited. These fundamental provisions, of course, make it clear that the System is concerned with the use of its credit for specific purposes.

With respect to quantitative control it must be borne in mind that there are many types of transactions calling for many kinds of financing which are not comprehended within the System at all—mortgage credit, investment credit, consumptive credit, for example. Since all credit does not come within the direct control of the System it follows that the System cannot control the price level except within a broad range and in a most general manner and only then provided it exercises at least an indirect control over all credit which may draw indirectly upon Federal Reserve credit. The Board in its Annual Report for 1928 made this statement:

"Because the system has a broad responsibility for the general soundness of credit conditions, and because a growth of bank credit for any purpose ultimately leads to a demand for reserve bank credit it is its duty to use its influence against undue credit expansion in any direction."

It may be observed parenthetically that not only should it be understood that the System is concerned with the particular uses to which credit is being put, but it should be understood also that the Federal Reserve Board and the re-

serve banks are not as powerful with respect to the quantitative control of credit as some would have us believe. The Board itself has specifically and emphatically denied its power to control credit quantitatively in anything like an accurate and speedy manner such as urged by those who insist that it can and does do it. Those who advocate the Strong bill for forcing a stabilization policy upon the Board seem to have overlooked many important factors in the situation.

### Qualitative Aspects

**R**ETURNING to the question of qualitative control, it is to be observed that the Act also authorizes the Federal Reserve Board and the reserve banks to conduct examinations to see how credit is being used and whether it is being diverted to improper uses—all of which involves the qualitative aspects of credit. The Board in its Annual Report for 1928 says, "this phase of reserve bank policy may be called banking policy, as distinguished from credit policy, which deals with more general developments of banking in relation to the credit needs of the country." Section 14, subsection (d) of the Act states that each Federal Reserve bank shall have power "to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view to accommodating commerce and business." This provision deals specifically not alone with the quantitative but with the qualitative aspects of credit.

The Board in its Annual Report of 1923, to use but one statement of the Board, covered the point in a most definite manner when it said:

"The exclusion of the use of Federal Reserve credit for speculative and investment purposes and its limitation to agricultural, industrial, or commercial purposes thus clearly indicates the nature of the tests which are appropriate as guides in the extension of Federal Reserve credit. They clearly describe the nature or character of the purposes for which such credit and currency may be extended. The qualitative tests appropriate in Federal Reserve bank credit administration laid down by the act are, therefore, definite and ample."

"But the problem of credit and currency administration implies the use not only of qualitative tests but also of quantitative tests. . . . The Board is fully aware of the fact that the problem of credit extension involves the question of amount or volume as well as the question of kind or character; otherwise stated, involves a quantitative as well as a qualitative determination."

A qualitative control of credit, of course, involves an indirect control over those activities which tend to divert Federal Reserve credit from legitimate to illegitimate uses and the Board in the same report points out that it is its duty and the duty of the Federal Reserve banks to protect their credit against speculative uses. The recent warnings of the Federal Reserve Board and banks likewise furnish ample evidence that the System is concerned vitally with the qualitative aspects of credit extension and very definitely with the use of credit in the stock market. To deny these facts is to deny what should be obvious.

### Produced Some Strain

**T**HE contention that credit is not being or has not been diverted from commerce and business to the speculative stock market is equally untenable. Real estate men doubtless would be glad to offer ample proof of their difficulties of marketing mortgages while call rates were soaring to 10-14 per cent. Even the government was affected to some extent in its recent flotation of Treasury certificates and felt it necessary to offer a higher rate of interest than would have been offered normally. As to commerce and industry the Board itself said in the Federal Reserve Bulletin for February, 1929, that "the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1½ per cent in the cost of credit for commercial uses."

The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future." The Board also has pointed out in its Annual Report for 1928 that "at the present time, of the total volume of nearly \$35,700,000,000 of loans and investments of member banks, more than 57 per cent are either in investments or in loans on securities." Between the middle of 1925 and the middle of 1928 member bank holdings of investments increased 21 per cent and their loans on securities increased 35 per cent. The proportion of bank credit that is based on securities has been increasing rapidly. It hardly seems necessary to push this argument further.

Those who insist that the Federal Reserve Board and banks lack the mechanism for control likewise appear to be uninformed. Part of their difficulty seems to be due to the fact that they think mostly in terms of the rediscount rate which of course is not the only instrument of control available in the event that the System wishes to control the use of credit in the speculative market.

*The available mechanism for credit control will be described in the second installment of this article which will appear in the July number.*

### Chicago Bank Stock

**A**N analysis made by the bureau of business research of the University of Illinois shows that the capital stock of Chicago banks, amounting to more than \$178,000,000 par value, is widely distributed as between stockholders. There are close to 35,000 owners of Chicago bank stock.

More than four-fifths of the total stock is owned by individuals, approximately 10 per cent is in the hands of individuals and institutions acting as trustees or administrators, and the remainder is owned by investment trusts, insurance companies, and educational institutions.

# and Benjamin Franklin was Chairman of the Board



*Success depends chiefly on these two virtues, INDUSTRY and FRUGALITY. Waste neither time nor money, but make the best use of both "*

*— Benjamin Franklin*

IN 1752, Benjamin Franklin called together a meeting of prominent Colonists at the Court House in the city of Philadelphia and outlined a plan whereby at small yearly cost each of them could be insured against loss if his home burned.

Thus was founded the first insurance company in America—a mutual company with Franklin as Chairman of the Board of Directors.

The spirit of thrift, industry and economy expressed in Franklin's words quoted above, from the beginning became a characteristic of mutual insurance. It has remained so.

Eloquent of mutual stability is the fact that there are operating today five mutual companies over 125 years old, twenty-one over 100 years old and one hundred and sixteen over 75 years old.

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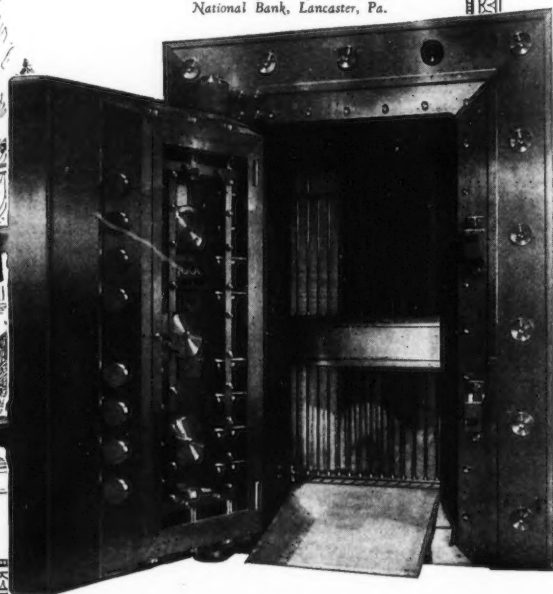
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# The New Currency Issue

By HENRY HERRICK BOND

Assistant Secretary of the Treasury

**Banks to Be Rationed in First Distribution of Reduced Size Currency. Limited Supply of New Notes at Outset Will Force Treasury to Re-Issue Old Bills for Few Months. Turnover of Entire Currency Expected to Be Completed in Short Period.**

THE initial problem of the reduced size currency was that of design. For many years the matter of revising the designs of the outstanding currency issues of the United States had been before the Treasury but circumstances seemed always to preclude any general revision and the correction of the existing confusion.

Generally speaking, there was a different design for the face and back of each denomination of each kind. The multiplicity and duplication of characteristic features was indescribable. For example, I have discovered eight or nine different portraits on the five-dollar bills of different types or issues, and certainly as many portraits on currency of the ten-dollar denomination. Of course, I do not mean that all these were found on the current issues, but the current issues were sufficiently confusing. It will be appreciated how this situation favored counterfeiters and handicapped the Secret Service.

The conclusion to reduce the size of the bills made it necessary to execute wholly new engraved stock for printing the new currency, and this gave the first really favorable opportunity ever presented for the department to make a complete revision of designs. Many months were devoted to the study, and finally certain principles were arrived at and adopted, with the result that the new designs are on a denominational basis, with emphasis on the dollar value rather than kind, and with the outstanding feature inherently affording greater security. An effort has been made to keep the designs as simple as possible without unnecessary and confusing ornamentation. For the new designs every back of a given denomination will be absolutely identical.

## Lincoln Fives

FOR example, take a five-dollar bill. The back will always bear an engraving of the Lincoln Memorial as a predominating feature. The five-dollar backs will accordingly be printed in quantity and used for any kind of currency issued in this denomination. Accordingly there will be only one five-dollar back, instead of several, for the government to print and protect, and for the public to become familiar with.

For the faces, although necessary to show the kind of currency, uniform de-



## Two Currencies

THE aid of the banks of the country is frankly sought by the Treasury to help in the stupendous task involved in the changing of the currency of the United States to new and smaller sized notes. Banks will be the actual agencies of distribution and are also relied upon to be educators in accustoming the public to what at first may appear to be a strange form of money. For a while both banks and public must handle both issues of the currency—the old and the new—until the transformation is fully effected.

nominal characteristics have been fixed, the outstanding feature of each denomination being a portrait. Again taking the five-dollar bill, on the face side the portrait of Lincoln will always appear in the center. As this feature is so prominent it will take a somewhat careful examination to distinguish between the different types until one is initiated into the points of difference. There are different titles and variations in texts, and as a further mark of difference to catch the eye, the Treasury seals and serial numbers will be printed in color; on United States notes in red, in blue for silver certificates, in yellow for gold certificates, in green for Federal reserve notes, and in brown for national bank notes.

## Portraits Protect Public

ON United States currency the seal will be on the left, balancing a large "F-I-V-E" at the right of the portrait. On the Federal Reserve currency the seal will be superimposed on this

word "F-I-V-E" at the right of the portrait, but will be balanced by the Federal Reserve district numeral at the left. The seal will have the same place at the right on the national bank currency, and at the left of the portrait the name of the issuing bank will be prominently printed.

These differences of color and the position of the seal are, we are confident, amply sufficient to facilitate the ready sorting of currency by banking institutions. Gold certificates will no longer have the yellow back of the past, but will be printed with a green back like other currency and will have the numbers and seal in yellow on the face.

It will be seen therefore, that we have succeeded in accomplishing a great simplification of currency designs, and we are confident that both by design and general plan we have made counterfeiting and the raising of the bills from one denomination to another more difficult in the future. The denomination henceforth can always be told readily by the portrait, which is the most difficult thing to counterfeit successfully, and if the public will learn the portraits of the lower denominations they will be protected from the raising of currency, and from counterfeiting in general, to a degree not possible in the past.

## Production Problems

HAVING thus determined the problem of design, which in itself was in some respects exceedingly difficult to work out, and having given definite approval to the models, the next step was the execution of the engraved stock. First the engraved dies had to be made and approved in turn. From these, master rolls were prepared and then in turn a sufficient number of plates to supply hundreds of presses each with four plates for printing.

Our next problem was that of production. It was necessary to print for a complete turnover of United States and Federal Reserve currency approximately 76,000,000 sheets of twelve subjects each, or 912,000,000 individual pieces. These have to go through the various operations of wetting, back printing, examining, a second wetting, face printing, examining, trimming, numbering and sealing, and the final cutting into individual notes. After this they are assembled into packages of 4000 pieces for delivery to the Treasury.

Vast as is the capacity of the Bureau of Engraving and Printing to accomplish enormous tasks of this character, the production of this new currency, in part carried on during a period of substantial production of the old-size currency to meet the needs of the past months, has strained the bureau's capacity to the utmost. However, this work has progressed to a point where it is assured that the currency will be ready for distribution upon the date contemplated in the Treasury announcements of last year, namely, in the early part of July of this year.

### *Has a Longer Life*

**I**N order that this new currency might have a longer life than that of the old-size currency, extensive research work was undertaken with the cooperation of the Bureau of Standards, the Bureau of Efficiency, and the manufacturers of the paper, to develop a type of paper which would have a greater endurance and folding strength and which would at the same time meet the manufacturing requirements of the Bureau of Engraving and Printing. It is not every paper of high strength that will stand the wetting and drying operations incident to the manufacture of currency. Our currency is printed by the intaglio process on dampened paper. Paper when moistened expands, but does not always contract uniformly as it dries. A second wetting is necessary between the printing of the backs and the faces. We require therefore a paper that will expand and contract uniformly under these conditions, in order that the faces on each sheet of twelve notes may register with reasonable accuracy against the backs previously printed. This is a somewhat severe requirement, when combined with a stipulated thickness, structure and folding strength.

We have, however, developed a paper believed to be satisfactory in all these respects and with such an increased strength that we are confident that the currency will have a longer life. Further research will be undertaken to make this paper if possible more resistant to dirt and grease. The new paper has no prominent silk fiber. Such fiber as it contains is so macerated and interwoven in the texture of the paper that it is not readily observed. It has long been felt that the prominent silk fiber was an encouragement to the counterfeiter, since it was so easily imitated.

### *Distribution Plans*

**T**HE problem of distribution is planned as follows: Prior to the issue date, stocks of the new-size currency will have been placed in reserve custody in the twelve Federal Reserve banks and in certain of their branches. The initial issue will be simultaneously to all banks. At this time all established denominations from \$1 to \$20, inclusive, of all kinds of currency except national bank notes will be issued. The higher denominations of United States and Federal Reserve currency and the established denominations of national bank notes will

follow as soon as possible. All issues will be through the Federal Reserve banks to member and other banks, and all banks will be placed on an equal footing.

There are about 900,000,000 pieces of paper currency outstanding. During the last fiscal year about 930,000,000 pieces of currency were redeemed and about 925,000,000 pieces of new currency were issued. Roughly speaking, the replacement of the old-size currency with the new small-size currency is the equivalent of about one year's ordinary redemptions and issues.

Of course, it would not be possible to undertake the replacement of all outstanding old-size currency at one time, or in a fixed limited period. Nor would it be possible to undertake the replacement of all outstanding old-size currency on and after a given date as rapidly as it might, by chance, be presented. Essential safeguards are necessary in handling this retirement of the old which, in effect, is the basis for the issue of the new. Redemption is involved with certain legal and accounting restrictions and, of course, there are physical limitations both at the Federal Reserve banks and the Treasury.

Therefore, instead of an immediate redemption of all outstanding old-size currency, it will be necessary for the issue to be made over a certain period of time. The Treasury and the Federal Reserve banks will do everything to make this period as short as possible. This means that at the very outset all banks applying for currency will be rationed, as it were, and each will be required to take a certain percentage of old-size currency assorted from that most fit for circulation. This percentage of old currency will be gradually decreased until after a period of a few months it is anticipated that all old-size currency presented at Federal Reserve banks will be replaced in full with the reduced-size currency.

Thus it will be seen that for a period of perhaps three or four months, at least, both sizes of currency will be in circulation, but with the old-size currency gradually disappearing, and it is estimated that after several months the old-size currency will be rather a rarity and will only be in circulation because it has not reached a bank for a period of several months. While it will always be a valid obligation it is safe to say that by the first of the year it will not be in general circulation and will be very rarely seen.

### *New National Bank Notes*

**T**HE problem of national bank currency in reduced size is a distinct one and in certain ways more difficult of solution than that of United States or Federal Reserve currency. When the Secretary of the Treasury determined, as was announced last January, that the bonds upon which the national bank currency rests would not be called for redemption in 1930, he simultaneously announced that this currency would be issued in reduced size shortly after the

other currency. Work was at once undertaken to prepare designs which would approximate as closely as possible in their essential features the designs for the other types of currency. These have been completed, and the engraving is now almost accomplished.

The exact time and manner of distribution are still under consideration. There are approximately 6300 issuing banks, and their currency represents approximately 15 per cent of all outstanding currency in dollar value. In pieces this currency numbers about 70,000,000. The printing of this large amount, with the appropriate names of the various banks on different denominations, is in itself an enormous task. It has required, first of all, a careful verification of the charter names, and the obtaining of facsimile signatures of the officers who have in the past signed by pen or through overprinting with local printers. These signatures will now be printed on the bill at the same time that the title of the bank is printed.

It is our aim to plan a method of distribution which will, as nearly as possible, give all national banks a certain amount of reduced-size currency for issue simultaneously, or as nearly simultaneously as possible. There are problems connected with this issue, and especially in connection with the size of the 5 per cent redemption fund and the redemption procedure, which are very difficult of solution. It is our aim to show no favoritism, either sectional or otherwise, in this distribution, but to accomplish the replacement as generally and as rapidly as conditions will permit. However, it is quite evident that this kind of currency will require a longer period for its complete replacement than the other types of currency require, due to the problem of sorting and redemption, the size of the redemption fund, and other related matters, and therefore it will be found in circulation for a somewhat longer period than the other currency. It is probable that it will take at least six or seven months to complete the turn-over of national bank currency, even under the most favorable conditions.

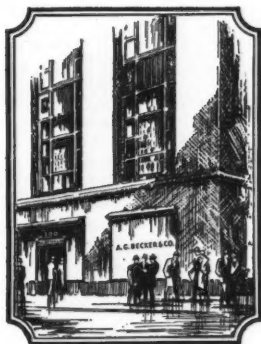
### *The Doctrine of Patience*

**W**E recognize that there will be at the beginning of the turn-over period a certain abnormal demand for the new currency, due to the natural curiosity of the public to see the new designs in the reduced-size currency. We believe that the stocks which will be available and which can be issued will be sufficient to meet this demand. It should be noted, however, that there will be no distribution of new currency in entire sheets to the general public.

Thus it will be seen that bankers have an important part in the program. It is only through their cooperation that we can hope to accomplish this turn-over with a minimum of annoyance and disturbance in the currency. With their cooperation the public's requirements for the new currency can be held within

(Continued on page 1267)

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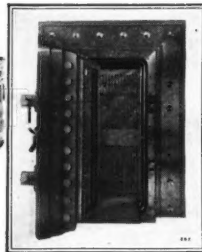
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# New Foundations for the Tariff

By RUSSELL KENT

Pending Tariff Act Makes Many Changes in Law Besides Rates. Powers of the President and Secretary of the Treasury Much Enhanced. Means of Avoiding Friction with Foreign Countries Sought by Removing Need for American Customs Agents Abroad.

**A**LTHOUGH public and congressional attention in the new tariff bill has been concerned during the progress of the measure in the House chiefly upon the changes in the rates of duty, the proceedings before the Senate finance committee and in the Senate itself promise to give emphasis to the highly important alterations in the special and administrative sections of the bill.

The special and administrative sections of the tariff act influence the revenue derived by the government and the cost of transacting business under its terms in a major degree, just as the arrangement of the brackets in the revenue act are of equal importance to the rates of the income tax.

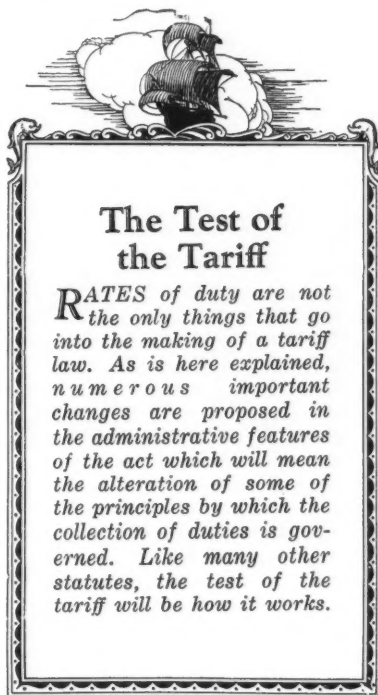
It is common knowledge that the new tariff bill as introduced in the House contained more changes in rates than generally had been expected in a measure heralded as a "limited" revision, and that, despite this situation, its appearance caused more dissatisfaction in congressional ranks because some rates were not advanced further, or were left unchanged, than because of the increases.

But it is not so widely recognized that the bill, as introduced and passed by the lower body of Congress, proposes drastic changes in the special and administrative sections, most of them having the purpose of relieving tightly-phrased conditions and transferring wide discretionary powers to the President, in some instances, and to the Secretary of the Treasury in numerous others.

## Foreign Complications

**T**HE importance of this new tariff bill does not rest entirely upon what it contains in rates and provisions; it is notable, also, for what it does not contain. The pressure for a limitation upon duty-free entry of sugar from the Philippines and for a duty upon vegetable oils from those islands was heavy, and came from representatives of farm organizations which have come to feel, with considerable reason, a position of power.

In spite of the fears expressed in some quarters that the tariff revision might cause complications with foreign countries in which irritation over trade relations had been growing, there appear to be a minimum of changes in the measure as it passed the House which threaten to breed ill-feeling; in fact, an



## The Test of the Tariff

*RATES of duty are not the only things that go into the making of a tariff law. As is here explained, numerous important changes are proposed in the administrative features of the act which will mean the alteration of some of the principles by which the collection of duties is governed. Like many other statutes, the test of the tariff will be how it works.*

obvious effort was made by the ways and means committee to avoid these dangers.

## Placating Factors

**T**HE products of Canada are treated mildly in the new measure. The wheat duty is made forty-two cents per bushel, which is the same as the rate fixed by presidential proclamation under the flexible tariff three years ago. The duty on live cattle was raised by a committee amendment after the bill had been reported, but there remains a differential between cattle and dressed beef sufficient to induce some shipments of stock on the hoof across the northern border. True, rates on butter and milk and cream are increased.

Increases in rates on corn, from fifteen to twenty-five cents per bushel, and on flaxseed, from forty to sixty-three cents per bushel, may offend Argentina, but they had been expected and discounted. The sensitive South American republic, which has complained often about the United States tariff, can find some placating factors in the fact that

the duty on casein was not increased while changes in the wool schedule will admit some of its coarse wools at a lower rate than formerly and others duty-free for carpet manufacturing purposes.

The sugar duty was increased in the House bill from a world rate of 2.2 cents per pound, with an effective rate of 1.76 cents on Cuban sugar, to three cents per pound and an effective rate of 2.4 cents on Cuban raw sugar. This will cause an additional customs tax of \$37,200,000 a year on the 3,000,000 tons of Cuban sugar which are imported into this country annually. But nevertheless Cuba remains the source of supply for the sugar this country cannot produce within its limits or in its island possessions and dependencies because of Cuba's 20 per cent tariff advantage over all other foreign countries in exports to the United States. And one of those little-noticed special provisions of the bill proposes to repeal a section of the Revised Statutes which has been a cause of irritation in Cuba and led to abrogation of the parcel-post treaty by that country early in 1928. This statute, passed in 1866, prohibits importations of cigars in packages of less than 3000 each. Cuba has asked repeal of this statute and previous failure to do so has been accepted in the island republic as an affront. The abrogation of the parcel post convention, meaning that no packages weighing over 4 pounds can be sent by mail to Cuba and all must pay letter mail rates, has disturbed the mail order business of this country in the last year, and cost it considerable in reduced business.

## Flexible Tariff Rewritten

**F**RANCE has made some complaint regarding activities of Treasury Department and Tariff Commission agents in that country, so that for the last two years none have operated there. New provisions in this tariff bill in the valuation section and the flexible tariff remove the necessity for American agents in foreign countries in connection with customs work.

One of the most important administrative changes proposed in the new bill is in regard to ascertaining the value of imports. Considerable argument was advanced before the ways and means committee to base all ad valorem duties on some method which could be operated entirely within the United States. The

(Continued on page 1268)

# FOR *Firesafety*



*The attractive home of J. A. Edwards, Birmingham, Alabama, is built of concrete masonry—slag tile units—and covered with portland cement stucco. George P. Turner, Architect.*



*A construction view of the same house, showing the concrete masonry walls before the stucco surface was applied.*



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# Look Before You Give

Professional Charity Frauds Make Fortunes Fleecing Banks. Fly-by-Night Publications Also Reap Harvest from Financial Institutions. Bankers Urged to Investigate Before Making Contributions as a Measure of Protection for Stockholders.

A MIDDLE-AGED blind man sat at a street corner reading the Beatitudes. His nimble fingers played back and forth over the raised letters as he read from his Bible. Busy people stopped in wonderment at the dexterity with which his fingers followed his text. On his lap was a tin cup and by it a sign reading, "Totally blind."

One by one the hearts of those who had paused momentarily were melted with compassion. Clink, clink, resounded the ring of coins as they dropped into the cup. As those who lingered passed on, their places about the old beggar were taken by new arrivals. And so all through the day there resounded the clink, clink of the nickels, dimes, quarters and an occasional half-dollar.

With the approach of nightfall this blind beggar would close his Bible, fold up his chair, pick up his cane and, tapping it on the sidewalk ahead of him, slowly pass on down the street and out of view. Presently he would be met by one of his "affectionate" relatives who would assist him to his home.

## Was Buying Homes

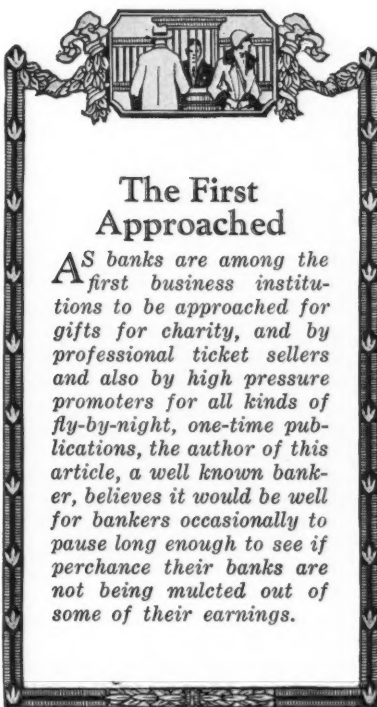
IT was my privilege one day to engage this old blind Bible reader in conversation, and to hear from his lips a few of the high lights on his personal affairs.

His receipts averaged close to \$20 a day, a portion of which he deposited in his bank account. I was especially interested in the use he was making of this income. What he told was at first unbelievable. The truth was, this old blind beggar was buying homes for his relatives. Not one of the thousands of persons who had gladly dropped their coins into his tin cup thought such a piece of deception possible, and yet that is exactly what the beggar said he was doing with his funds.

Less than a city block from where this old Bible reader had day after day read the Scriptures sat another beggar, his back against a billboard which stood flush with the property line. From all appearances his affliction was an injured leg. In his appeal he did not use the Holy Scriptures as a "come on," but he used his crutches, which were conspicuously displayed across his lap. As a clincher he invariably used "please" whenever he extended his cup to some person about to pass by.

## Switched Bandages

ONE day I mentioned his case to a friend, who jokingly retorted, "He ought to be killed."



## The First Approach

AS banks are among the first business institutions to be approached for gifts for charity, and by professional ticket sellers and also by high pressure promoters for all kinds of fly-by-night, one-time publications, the author of this article, a well known banker, believes it would be well for bankers occasionally to pause long enough to see if perchance their banks are not being mulcted out of some of their earnings.

"What do you mean?" I asked, stunned by his harsh statement.

"He's a faker—that's all. Just watch which leg will be all bandaged up tomorrow," he added.

I said nothing, but the next day I made it a point to investigate for myself, for I had but little faith in my friend's statement. Imagine my astonishment when, as my friend had said, I found that from all appearances his left leg had been seriously injured instead of his right, which, as I recalled, was the afflicted leg the day before.

A day or two later I went back in order to reassure myself that I had made no mistake, and I found that he had switched back to his right leg. Instead of either leg being amputated, I was convinced that he had two good legs. It was by a trick arrangement of his legs, and a lot of bandaging, that he was able to deceive the average person. Day after day, charitably-minded people had dropped their donations into his cup, and in some cases with a "God bless you." At the close of each day when the shades of evening were falling, this old humbug would limp away out of sight, assisted by his crutches, but on two perfectly good legs.

## A Graceful Turnout

TO a saintly looking lady of sixty years of age belongs the credit of being the premier bogus beggar of all times. Like the Bible reader, she, too, counted heavily on her Bible as a means of gaining the confidence of charitably-minded people. She paraded herself as a devoted worker among prisoners, and, naturally, whenever she could find a pulpit open to her, she never failed to accept the opportunity it afforded for telling of her great work among the unfortunates languishing behind prison bars. None of her meetings were ever concluded without a passionate plea for funds for her "beloved" prison folks. That she was successful in getting her audiences to dig deep into their pockets is shown from the fact that when she died she had \$65,000 to her own personal credit in savings banks.

One day I was walking down a busy business street in a certain metropolitan city, and on looking ahead some fifty feet saw a ladder leaning up against a store front. The base of the ladder rested approximately in the center of the sidewalk, making it necessary for the public to pass either to the left or right or collide with it. At the top of this ladder was an electrician working on an electric sign.

Not five feet beyond this ladder and approaching it were two blind beggars, their canes tapping the sidewalk as they advanced. A serious accident seemed inevitable unless some one stopped them, but no one stopped them. Much to my amazement, as they approached the ladder, and when only about two feet from it, they executed as graceful a turn-out as any person with two good eyes could have made. A placard which hung around their necks read, "Totally Blind." When I saw them execute this perfect turn-out and then swing back into line again, I said to myself: "Totally blind, except for ladders and all other objects." Right here I lost confidence in these two supposedly blind beggars.

## In the Name of Charity

THIS pair called to my mind another blind couple, a young man and his young wife. They sang hymns and old folk songs to the clink, clink, clink of dimes and nickels dropping into their tin cup as they cautiously felt their way along the street.

This case was a most unusual one in certain respects. In the course of a year or so it was disclosed that they were professional beggars. They lived in a

fine apartment which they had furnished with the proceeds of their street collections. The investigators reported that they had a baby grand piano, a Victrola and other luxuries. At night they drove about in their own Packard, at the wheel of which sat a chauffeur whose salary was also paid out of the proceeds of charity.

I am giving this insight into the activities of certain so-called charity cases in order that it may make bankers more cautious, not only with your own contributions, but especially with regard to the gifts which you make for your bank.

One of the most numerous types of frauds perpetrated on banks today in the name of charity is in the sale to them of certain tickets to all kinds of affairs from raffles on automobiles under the auspices of some old folks' home, to tickets to a grand ball, the proceeds of which are to be used to equip a hospital for disabled veterans.

### Easy to Sell Tickets

**B**ANKERS, beware! Big money is being made in promoting certain kinds of charity. "Wolves in sheep's clothing" are abroad in the land. Today professional ticket sellers are exceedingly active, not because they are charitably minded, but because it gives them an easy way to make "big money." As a class, bankers are usually good customers for tickets. Whether or not they can use them is immaterial. They just buy them, that's all. Consequently, thousands upon thousands of dollars are literally thrown away.

In four cases out of five these balls or raffles are trumped-up affairs, instigated by promoters, in anticipation of making a big clean-up. By expressing a desire to be helpful these professional ticket sellers soon win the confidence of the secretary or the president of certain organized groups of people, to whom they propose in a brotherly way that the organization make a "bunch" of money without effort on its part. As a general thing, they confine their operations to the smaller groups. Not suspecting that they are being led into a trap, these officials acquiesce, lending the good name of their groups to promulgate an enterprise which is destined to turn out to be a big promotion. Backed by the good names of these organizations, these ticket sellers find it an easy matter to sell tickets. As a rule, banks are the first approached and, consequently, the first to respond. If a bank declines to buy, it is not unusual for these professionals to subject that bank to abuse.

Not long ago a clique of professional ticket sellers fell into the hands of the law, and, according to reliable press reports, they have abstracted from banks and others from the sale of tickets to professionally frame-up charity balls and raffles, hundreds of thousands of dollars. Of this great amount, the institutions in whose names the affairs were staged received only a small proportion. In one case \$14,000 was taken in from the sale of tickets to a raffle, which never took place. The goods to be raffled had

been rented and in due time they were returned to the owners. Of the \$14,000 received from the sale of tickets, the institution that lent its good name to fraud received only \$300, or less than 5 per cent of the amount contributed by the public, and, of course, of the \$14,000 banks contributed their full share. Think of it! A bank in this case bought twelve tickets at \$1 each in the name of charity and only 52 cents of the \$12 ever reached the right source.

### Fly-by-Night Publications

**I**F bankers will take time to investigate every ticket selling scheme that is placed before them, regardless of whether or not they have bought tickets from the same source in the past, they are certain to get a big surprise. The thing that will surprise them is the small percentage of these ticket-selling affairs that are bona fide, and the large percentage that are promotions staged by professional ticket sellers as a means of making them some easy money.

The facts are, that the number of charitable and semi-charitable institutions which of their own volition put on ticket selling schemes of one kind or another are few and far between, and are getting less and less, while on the other hand the number of trumped-up ticket-selling schemes which are promoted from beginning to end by professional ticket sellers are in the great majority and increasing daily. This being the case, the only businesslike thing to do is to investigate all ticket-selling schemes, in the absence of all of the facts.

Having discussed the need for investigating all ticket-selling schemes, let us turn our attention to certain types of bank advertising which, like the ticket business, is questionable as to its real worth, in a majority of cases. There are literally hundreds of fly-by-night publications in the United States being considered daily by our bankers. A large majority of these have been started for no other purpose than to sell advertising space to banks and others, regardless of whether or not those advertising receive their money's worth. In other words, many of these publications have been started for the one purpose of getting some "easy money" for the promoters. No sooner is their objective known than the publication suspends, and immediately thereafter a new publication embracing a different business classification, or having a new objective, appears on the horizon. If the former was a one-time farmers' publication, the new publication may have all the earmarks of a business man's publication, or it may take on the form of a directory.

### Camouflaged Circulation

**D**ESIROUS of knowing more of the ownership of this type of publication, I traced a half-dozen of the more prominent one-time specials right up to the door of the publishers, and found that three of these specials, although appearing to be competitors, were owned by one man and all of them were printed

on the same press. Just the other day the ownership of two supposedly competing publications came to my attention, and by comparing the make-up and the contents of the two publications it was very evident that they emanated from the same source.

About the only reason why hundreds of banks today buy space in such publications is because they accept the highly colored statements of solicitors from the Ananias Club, instead of getting the actual facts. It is not uncommon to find publications claiming from 10,000 to 50,000 readers having a bona fide paid circulation of less than five hundred. Certain publications making similar claims have only a free circulation. Still other publishers claiming a wide circulation for their publications use an incinerator in disposing of the bulk of their production. Other promoters camouflage their true circulation by surrounding it with a lot of rash statements and claims, none of which can be accurately checked.

In a few of our larger cities local bankers have grown so tired of being fleeced by a lot of parasitical advertisers that they have got together and agreed on thumbs down on these "mushroom" publications. With them it is "No" when it comes to all fly-by-night mediums. To state it another way, they demand that a publication be placed on a six months' probationary term. If in that time it has demonstrated that it is permanent and that it is a good medium in which to advertise, it is approved. Naturally, the fact that a six months' probationary period is ahead of such publications has stopped many contemplated mediums from appearing. Those that are bona fide and properly financed have usually survived, and, in due time, have proved their right to receive consideration from their banks. But the great majority of one-time publications are short lived.

### Clean Up on the Banks

**O**N the other hand, in cities where the banks do not cooperate, and each bank buys space without investigation, these one-time publications thrive and each year clean up on the banks.

On my desk is just such a publication as I have been describing. Each year for several years it has bloomed out with a special edition. It contains approximately one hundred pages, of which seventy are covered almost solidly with advertisements, while on the remaining thirty pages appear various articles, a number of which are reprints of old matter. Thirty-two banks are represented in this special number with good-size advertisements, indicating that banks are good patrons of one-time publications. Next year this same publication will bloom out again with its 1930 special edition. It may appear in a new cover design and it may not, depending on how successful its high pressure solicitors are in selling space. If the thirty-two banks run true to form they will be back again next year for another trimming. By this time it is quite likely that the advertisements

(Continued on page 1287)



## Let Pneumatic Tubes Help Your Tellers Build Good Will

### A few well-known users:

NEW YORK STOCK EX-  
CHANGE  
UNION TRUST COMPANY,  
CLEVELAND  
BANK OF ITALY, SAN  
FRANCISCO  
FEDERAL RESERVE BANK,  
KANSAS CITY  
FIRST TRUST & SAVINGS  
BANK, CHICAGO



**Y**OUR tellers are your contact men. Upon them rests the responsibility of pleasing customers—of building good will. When the line at the window is long and customers seem a bit impatient, your tellers must work fast. The line must be kept moving.

Yet tellers should not be forced to take chances—to cash checks that appear doubtful—merely to attain speed. Lamson Baby Tubes provide tellers with a swift yet private means of verifying checks, obtaining balances and comparing signatures. They whisk

checks to the bookkeepers with the speed of thought. No conversation, no recording, no embarrassing delays, no break in the pleasant contact with the customer.

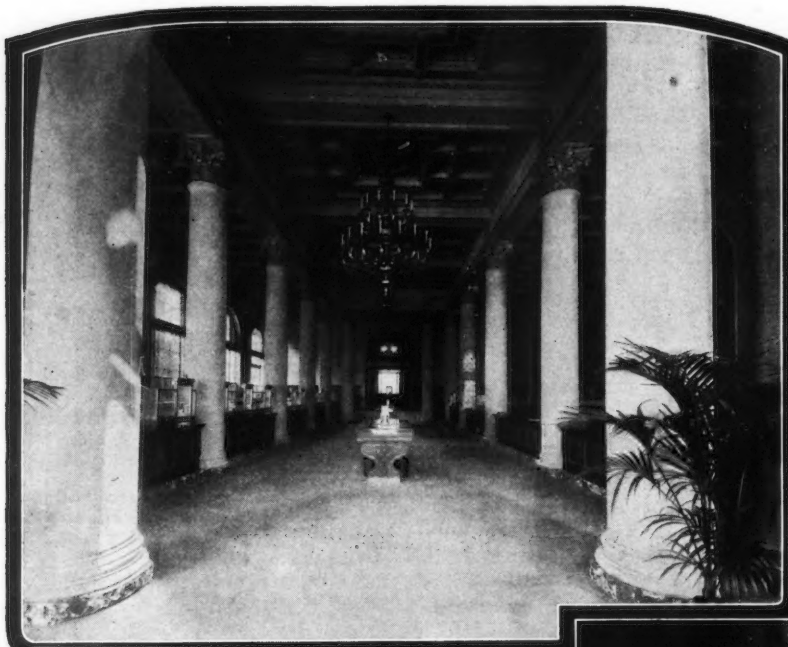
Lamson Baby Tubes are installed with the ease of wiring, and they will serve faithfully with practically no attention. Their initial cost is exceedingly low—in fact, they can be leased, if desired.

Write for our interesting booklet, which tells why leading banks prefer this simple, swift method of protection.

THE LAMSON COMPANY, SYRACUSE, NEW YORK

# LAMSON BABY TUBES

*Put Your Bookkeepers at Your Tellers' Elbows*



The new building of the First Trust & Savings Bank of Pasadena, Calif., is equipped with GF Allsteel. Architects: Haskell & Bennett, Pasadena.

*The GF Allsteel Line:*

Filing Cabinets • Shelving  
Sectional Cases • Transfer  
Cases • Storage Cabinets  
Safes • Document Files  
Desks • Tables • Supplies

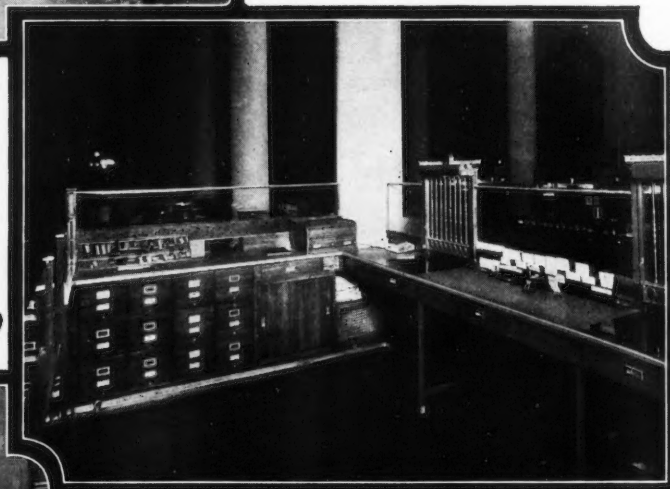


**WHAT** could reflect the stability of a bank quite so faithfully as handsome interior equipment of indestructible steel!

GF has a special department that applies itself exclusively to designing, manufacturing and installing Allsteel furniture for counting room, cages and offices.

Bank executives and building committees have turned eagerly to GF Allsteel equipment because it combines unusual beauty and great utility with the fire-resisting, wear-resisting permanence of steel.

**THE GENERAL FIREPROOFING CO.**  
Youngstown, Ohio • Canada Plant, Toronto  
BRANCHES AND DEALERS IN ALL PRINCIPAL CITIES



## A COMPLETE BANK FURNISH- ING SERVICE

**GF Allsteel**  
"Serves and Survives"

When writing to advertisers please mention the American Bankers Association Journal

ATTACH THIS COUPON TO  
YOUR FIRM LETTERHEAD  
**THE GENERAL FIREPROOFING CO.** A. B. J.  
Youngstown, Ohio

Please send me a copy of the GF Allsteel Catalog.

Name.....

Firm.....

Address.....

City..... State.....

# Banking's Place in Prosperity

Extracts from the Report of the President's Committee on Recent Economic Changes

**Better Banking Conditions Are Predicted for United States. Recurrence of Extreme Fluctuations of Commodity Prices of Last Decade Not Expected. Reduction in Number of Banks Has Helped Situation. Efficiency, Not Legislation, Brings Safety.**

**W**HILE there have been no changes of great moment in banking organization and practice during the period from 1922 to 1928, a number of tendencies are to be observed that may prove to be the initial stages of significant modification and development. Particular interest attaches to the decline in the number of commercial banks throughout the country, the growth of branch banking and chains of banks, and the widening range of functions and activities undertaken by a steadily increasing number of banks.

During the first two decades of the century, to go no further back, there had been a continuous and accelerating increase in the number of banks in the United States, the amazing total of more than 30,000 being in operation in 1921. A conspicuous reversal of this tendency has now continued for more than seven years, and, taking the country as a whole, there has been a decided reduction—4000—in the number of banks. But with over 26,000 banks still in operation, this reduction still leaves the banking system of the country unchanged in this its most characteristic and fundamental feature. It remains a system constituted by a multiplicity of local banks, exhibiting extreme diversity in size, in character and experience of management, and in the surrounding economic conditions of the communities to be served.

Whether there will be a further material decline in the number of banks cannot be positively predicted, though it seems by no means improbable. In any event, it may be confidently anticipated that the decline will be at a far less rapid rate, since the major cause of the disappearance of banks in recent years—numerous bank failures—reflects conditions abnormally unfavorable to banking solvency in many localities, conditions unlikely to reappear with any like severity in the near future. But other less potent influences tending to bring about a reduction in the number of banks have also been present, and these influences may be expected to persist and perhaps assume greater significance. As the analysis of these influences will throw some light upon the bank failure problem, they will be given prior consideration.

Under a system of independent unit banks, the accommodation that is available to the great mass of borrowers is limited to the amount of funds at the



## Confidence

*THERE are presented here the views of two well known economists, O. M. W. Sprague and W. Randolph Burgess, who studied the banking angle in connection with the inquiry into the causes of prosperity initiated a year ago by President Hoover. Their conclusions reflect a confidence in the future of the financial institutions of this country which is based upon trends within the specific field as well as upon the national economic outlook.*

disposal of the local banks. But as any particular business undertaking grows in size, the geographical range of its borrowing possibilities widens. It is able to resort to the nearest urban center, and, with further growth, to banks in the larger cities throughout the country, including New York. The services of dealers in commercial paper may also be utilized to secure funds from a large and changing number of scattered banks. Under a unit banking system, in contrast with a highly developed branch banking system, the borrower seeks distant supplies of funds, as supplies of funds are not sent to his neighborhood for employment.

Resort to the money centers by large borrowers is by no means a recent practice, but it is certain that the practice is being more and more generally employed and by a widening range of individuals and corporations. When a number of small producing or merchandising units are combined into a single organization, dependence on local supplies of bank credit is eliminated. Finance companies, utilizing credit lines established with many city banks, relieve local dealers from some portion of

the obligations which they could only finance through local banks. Cooperative marketing associations of farmers secure acceptance credits from distant metropolitan banks whose assistance could not possibly be enlisted by any considerable number of the individual members. Legislation that fosters this particular development is to be noted in the system of intermediate credit banks, the resources of which are especially designed to assist cooperative marketing. In the farm mortgage field, also, the same situation is to be observed. The Federal Land Bank System provides a standardized security resting upon hundreds of thousands of first mortgages, which enables farmers to tap distant sources of funds, but necessarily at the same time removes from the portfolio of the local banker a security of the best obtainable character.

## Concentration Limited

**T**AKING all these tendencies into account, it is evident that the character of the business that many local banks retain must have undergone not a little deterioration. And these are not the only difficulties with which in many instances they are beset. The bank in the small village or rural hamlet, like the neighboring storekeeper, is unfavorably affected by improvements in transportation which have greatly widened the area that is conveniently adjacent to the larger cities and towns. Banks in the larger centers have been gaining deposits, and seem likely to continue to gain, at the expense of the small rural bank in surrounding territory. Exceptionally capable management will doubtless enable many to surmount these various obstacles, but these conditions are not favorable to the maintenance of solvency, to say nothing of satisfactory earnings.

To depositors and borrowers alike, a further decline in the number of banks, in agricultural sections particularly, would involve no appreciable inconvenience, and would result in a decided gain in security. But mergers and voluntary liquidation are the desirable means of accomplishing the result rather than bank failures, and it is satisfactory to note that these more desirable methods are being freely employed. More than fifty mergers and voluntary liquidations, during the first seven months of 1928, in the over-

(Continued on page 1269)

# Fiction and Fact on Bank Runs

By GILBERT THORNDYKE

**Importance of Runs as Cause of Bank Failures Found Greatly Exaggerated. Analysis of Actual Suspensions Discloses that Only Small Percentage can be Attributed to Sudden Loss of Confidence Manifested by Depositors in their Institutions.**

**R**UNS on banks have long been synonymous with failure in the public mind. Even among bankers there is a very general tendency to share the popular misconception that a run is both the cause and the outward manifestation of an institution going to the wall. In the realm of dreams the run is the banker's nightmare.

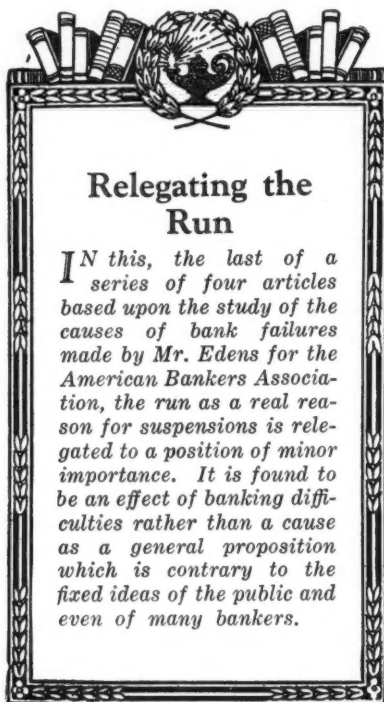
Because of their frequently spectacular nature and the impression created by the massing of depositors at the doors of an institution the public thinks it knows all about bank runs. Many bankers concede the point. Runs have come to be considered as one of the risks of the profession. Much has been said vaguely about loss of depositors' confidence and the inference has been drawn that many banks that failed in the United States in recent years did so not so much because of the accumulation of undesirable assets, but because of shrinking deposits which were not warranted by any conditions having to do with local prosperity.

Such has been the general idea of bank runs, the product of guess-work and the lack of facts. Investigation of the phenomena has stripped them of much of their mystery. It can now be scientifically demonstrated that runs are not important factors in the cause of bank failures nor does a run mean the doom of an institution.

## Two Kinds of Runs

**T**HE real place of the run among the forces that come into play in the field of banking has been found by William McKinley Edens of Chicago, in the course of his intensive study of the causes of bank failures, made under the fellowship created for the purpose at the Harvard Graduate School of Business Administration by the American Bankers Educational Foundation.

At the outset, according to his report, there are two kinds of runs, so-called, which must be distinguished. Those most commonly thought of and which are accorded dramatic treatment by the newspapers are the sudden, impulsive clamors made by depositors for their money. These are apparently without reason other than that a failure, or series of failures, in the same town or locality has shaken the public confidence in banks as a class. Such runs are also precipitated or intensified by the circulation of rumors, often false.



## Relegating the Run

*IN this, the last of a series of four articles based upon the study of the causes of bank failures made by Mr. Edens for the American Bankers Association, the run as a real reason for suspensions is relegated to a position of minor importance. It is found to be an effect of banking difficulties rather than a cause as a general proposition which is contrary to the fixed ideas of the public and even of many bankers.*

The other type has come to be known as the "slow run." This phenomenon is the gradual ebbing away of deposits, both time and demand, over a considerably longer period of time than the precipitate type. This period may be anywhere from three months to a year, or even longer. It becomes more evident when deposits fail to gain at the season of the year when proceeds have been received from a good crop. Such a run is most insidious in its influence and practically impossible to stem.

## Complicated by Public Funds

**I**T is complicated by the presence of public funds or other large balances subject to check. While there are casual deposits, to be sure, the net result is that more money is taken out of the banks than is put into them, and ultimately the banks find themselves pushed to the wall, where it is impossible either to liquidate any more loans or obtain further accommodation from the Federal Reserve bank or from city correspondents. Just how much of this type of run is caused by nervousness of

depositors, and the extent to which economic conditions and the attraction of other investment opportunities plays a part, is impossible to say.

To measure the run as a cause of failures a chronological analysis was made of 478 closings occurring over a period of a year. In this study there was noted every closure that was followed by other suspensions in the same town and county or immediately contiguous territory within periods of ten, thirty, sixty and ninety days. It was assumed that this selection would most surely include all banks which closed under the pressure of a sudden run. As the time element was increased it was further assumed that the extent to which loss of confidence was the major cause would become more remote.

The following is a distribution of the failures selected:

|   | Number of Failures | Per Cent of Failures |
|---|--------------------|----------------------|
| A. Contiguous failures occurring within 10 days .....   | 142                | 29.8                 |
| B. Contiguous failures occurring within 30 days, excluding A. ....  | 31                 | 6.5                  |
| C. Contiguous failures occurring within 60 days, excluding A and B .....  | 34                 | 7.1                  |
| D. Contiguous failures occurring within 90 days, excluding A, B and C .....   | 6                  | 1.3                  |
| E. Sundry contiguous failures occurring over 90 days but included because of special local conditions, excluding A, B, C, and D. .... | 19                 | 4.0                  |

But these are gross figures which are misleading in that they include two substantial items which do not properly belong here. One of these covers nineteen suspensions occurring in three adjoining counties within two days. Everyone of these banks reopened the following day or so after obtaining "time waivers" from their depositors. These waivers were written agreements to the effect that certain proportions of deposits were not to be demanded before certain future dates.

## Importance Exaggerated

**T**HE fact that these banks were able to obtain such concessions from their depositors and reopen is evidence that they enjoyed a reasonable degree of confidence, even though this act was an admission of weakness. After eliminating this item from the ten-day group there  
(Continued on page 1268)



MISSOURI PACIFIC  
BUILDING,  
ST. LOUIS, MO.

E. M. Tucker, *Architect*;  
Mauran, Russell and  
Crowell, *Associate Ar-*  
*chitects*; C. H. Hadley,  
*Chief Engineer.*

## Another skyscraper owner uses and endorses BONDED FLOORS

**T**IME and again when the owners of a splendid modern building plan to occupy space in their own building, they choose Bonded Floors. Which goes to prove that these modern resilient floors are completely desirable, both from the *tenant's* and the *owner's* point of view.

The Missouri Pacific Railway Company has its offices in this fine skyscraper, recently erected in St. Louis. An area of 35,000 square yards of the company's floor space is covered by Bonded Floors of *Sealex* Battleship Linoleum.

As a *tenant*, the company enjoys the quietness, comfort and business-like appearance of these resilient floors. As an *owner*, the Missouri Pacific is assured the triple economy of durability, low first cost and reduced maintenance costs.

Bonded Floors of *Sealex* Linoleums and *Sealex*

Treadlite Tiles (cork-composition) are manufactured by the *Sealex Process*, which makes these materials spot-proof, stain-proof — more efficient and economical than ever.

Cleaning is greatly simplified, for dirt won't grind into these floors. Spilled things such as grease, ammonia, ink, etc., are mopped up without leaving any disfiguring trace of damage.

Thus, durability is increased and maintenance costs are materially reduced.

Write our Department W for prices, samples and information concerning these modern floors and the Guaranty Bond that goes with them.

CONGOLEUM-NAIRN, Inc.

General Office: Kearny, N. J.

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# BONDED FLOORS

*Resilient Floors Backed*



*by a Guaranty Bond*

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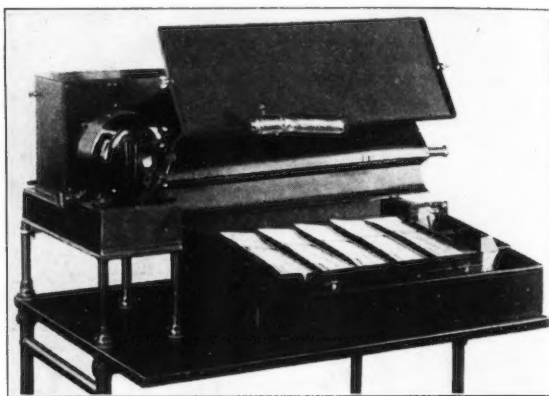
▼

## “WHAT WOULD HAVE BEEN A TEDIOUS, MONOTONOUS TASK FOR SOME HIGH-PRICED MAN IS NOW DONE UNDER HIS SUPERVISION, BY A JUNIOR CLERK”

*Press Publishing Company's Comment on the Todd Check Signer*



*Todd Check Signer equipped with Stand and Stacker. Stand permits operator to remain seated and control the machine with a foot treadle, watching the stacking process in a mirror.*



*The Stacker mechanically gathers and stacks checks in their numerical order.*

THE following letter from A. S. Van Benthuyzen, Assistant Treasurer of the Press Publishing Company, publishers of *The World*, New York, gives clearly the progressive, modern point of view responsible for the remarkable success of the Todd Check Signers:

“About a year ago we started paying our employees by check. As you know, we had a very difficult and complicated problem to solve before we could effect the change. With thousands of checks weekly, machinery that could reduce the physical work was essential. *Human energy can be used to far better advantage than doing work that can be done faster and as well, if not better, by a machine.*

“We installed a Todd Check Signer and a Todd Super-Speed Protectograph and have never had any reason to regret the act. What would have been a tedious, monotonous task for some high-priced man is now done, under his supervision, by a junior clerk. The time involved is infinitesimal as compared with the time that would be necessary were we dependent upon old-fashioned methods.

“From our own experience of the past year we cannot recommend the equipment too highly to any corporation issuing large quantities of checks.”

Modern banks and businesses recognize the importance of conserving executives' time and energy. The extremely fast, dependable Todd Check Signers are in service everywhere, signing 7500 to 9000 checks an hour with the most nearly non-counterfeitable signature known!

Endorsements are constantly coming in from prominent banks, business offices, industries, public utilities, and state and municipal treasuries. Every type of check user hails this remarkable new device as one of the greatest achievements of time and labor saving in the history of modern business.

Have a Todd representative demonstrate this marvel of modern commerce. Read what the country's greatest banks and businesses say about the Todd Check Signer. Get in touch with the Todd representative in your city or mail us the coupon and we will send you some of the very interesting literature we have prepared on this great new machine. The Todd Company, *Protectograph Division*. (Est. 1899.) Rochester, N. Y. *Sole makers of the Protectograph, the new Super-Safety Checks and Todd Greenbac Checks.*

THE TODD COMPANY, *Protectograph Division*  
1176 University Ave., Rochester, N. Y.

6-29

Please send me complete information about the Todd Check Signer.



Trade Mark

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Address \_\_\_\_\_  
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# TODD SYSTEM OF CHECK PROTECTION

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# French Gold and American Money Rates

By CARSON P. BEEMAN

Conditions in American Money Market Traced to French Calls Upon England for Gold. Events Responsible for Situation at Present Had Their Beginning During World War. France Stands in Control of Short Term Markets of the World Is Believed.

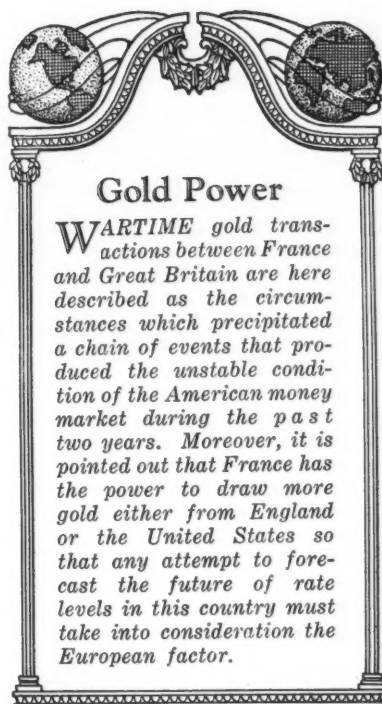
THE American money market and the trend of its rates has become the all-absorbing question, not only in this country but in Europe as well. The Federal Reserve Board has been commended and condemned for its credit policies, but the future of the rate level is still an enigma even to the best informed. However, the course of events responsible for present conditions can be traced, although to do so it is necessary to go back to the period of the World War and then follow the situation down to the present.

Before the United States entered the war, Great Britain financed her allies and made substantial loans to the Government of France. Great Britain demanded gold as security for these loans, not only from France but from Italy and other countries to which loans were made. Britain required from France a deposit of approximately one-third of the gold holdings of 5,500,000,000 francs of the Bank of France—about 1,864,000,000 francs, this amount being the equivalent of 75,000,000 pounds sterling or \$360,000,000. This gold was furnished by the Bank of France as security for the borrowings by the Government of France, and there was an agreement that if and when the Government of France should pay the British Government certain amounts on account of its debt, the gold or a portion of it would be returned.

Such payments were made early in 1927 and a demand for the return of 25 per cent of the gold—about 466,000,000 francs, the equivalent of 18,500,000 pounds sterling or \$90,000,000—was made in May, 1927. Britain delivered the gold and France started to ship it to the United States. Some \$30,000,000 was shipped, but the United States Treasury Department learning of the transaction stopped further shipments by arranging to have Federal Reserve Banks take the custody abroad of the unshipped portion—\$59,548,000—and to sell to the Bank of France the equivalent in United States Treasury certificates of indebtedness.

## London Was Fearful

THE demand by France for the return by Britain of such a large amount of gold, approximately 12 per cent of the gold holdings of the Bank of England,



### Gold Power

*WARTIME gold transactions between France and Great Britain are here described as the circumstances which precipitated a chain of events that produced the unstable condition of the American money market during the past two years. Moreover, it is pointed out that France has the power to draw more gold either from England or the United States so that any attempt to forecast the future of rate levels in this country must take into consideration the European factor.*

caused much uneasiness in London. The British Government had not retained the gold and kept it earmarked as collateral. On the contrary, the gold was used by the British Government when acquired, and undoubtedly was a part of the large shipments to the United States during the war period. London bankers were fearful lest France should make further payments on account of its debt and call for the return of more gold. This fear led to a conference at that time between the Governors of the Bank of England, the Bank of France, the Reichsbank, and Governor Strong representing the Federal Reserve Bank of New York.

The agreement resulting from this conference was to maintain a spread of 1 per cent between the discount rates in New York and London. The New York rate then was 4 per cent and the London rate 4½ per cent, and to establish a spread of 1 per cent, New York reduced its rate to 3½ per cent in August, 1927.

Rates then being higher in England than in the United States caused credits to flow to England, and during the summer of 1927 American banks bought bills freely in the London market and made fixed deposits with the London banks. The London money market was adjusted very quickly to the loss of gold.

## Factories of Credit

IN keeping with the agreement, the various Federal Reserve banks reduced their rates to 3½ per cent in August, 1927. The Federal Reserve Bank of Chicago declined for a few weeks to reduce, but finally did reduce its rate on September 7, 1927. The reader will recall the so-called "Chicago Controversy" as to whether rates should be fixed in Washington or whether a Federal Reserve bank is sovereign and has the right to fix its own rates. The agreement to maintain a spread of 1 per cent expired January 1, 1928, and was extended to April 1, 1928.

Early in February, 1928, money conditions in London having so greatly improved, New York was notified by London that there was no longer any necessity of continuing the agreement in effect. Immediately the rediscount rate at Federal Reserve banks was increased to 4 per cent, later to 4½ per cent, and in July, 1928, to 5 per cent.

The first disturbance to the American money market came in 1927 during the period that the 3½ per cent rediscount rate was in force. To make this low rate effective it was necessary for the Federal Reserve banks to indulge heavily in open market operations. The accompanying tabulation on next page is of interest in tracing the analysis which follows.

It will be observed that on May 11, 1927, Federal Reserve banks held open market investments of \$487,000,000, and that by August 10, 1927, the approximate effective date of the 3½ per cent rediscount rate, the amount had been increased to \$596,000,000. Between August 10 and November 16, a period of approximately three months, open market investments had increased to \$1,037,000,000, an increase of \$441,000,000. It should be borne in mind that Federal Reserve banks are factories of credit and that an increase in the volume of open market investments by Federal Re-

serve banks is the measure of the additional volume of credit voluntarily furnished to the money market.

It will be observed also that member bank rediscounts decreased from \$414,000,000 on August 10, 1927, to \$367,000,-

1927, was still being furnished by the Federal Reserve System in August, 1928, not directly through open market investments as in November, 1927, but indirectly through the medium of borrowings by the member banks.

OPEN MARKET INVESTMENTS OF THE FEDERAL RESERVE BANKS  
(Figures in millions of dollars)

|                    | Bills Bought | U. S. Securities Bought | Both  | Member Bank Re-discounts | Total Invested Assets | Reserve Ratio | Gold Holdings |
|--------------------|--------------|-------------------------|-------|--------------------------|-----------------------|---------------|---------------|
| *May 11, 1927..... | 233          | 254                     | 487   | 442                      | 930                   | 80.0          | 3,070         |
| Aug. 10, 1927..... | 176          | 420                     | 596   | 414                      | 1,010                 | 78.4          | 3,008         |
| Nov. 16, 1927..... | 333          | 704                     | 1,037 | 367                      | 1,404                 | 70.8          | 2,889         |
| Feb. 1, 1928.....  | 377          | 434                     | 811   | 423                      | 1,234                 | 73.7          | 2,799         |
| Aug. 8, 1928.....  | 162          | 208                     | 370   | 1,061                    | 1,431                 | 69.5          | 2,605         |
| Nov. 14, 1928..... | 475          | 222                     | 697   | 858                      | 1,555                 | 67.4          | 2,659         |
| May 22, 1929.....  | 138          | 153                     | 291   | 904                      | 1,195                 | 75.9          | 2,841         |

\*May 11, 1927, is the date of the acquisition of \$59,548,000 gold in London by Federal Reserve banks. Aug. 10, 1927, is the approximate date the 3½ per cent rediscount rate became effective at the Federal Reserve Bank of New York and a few other Federal Reserve banks. Nov. 16, 1927, is the date of the highest volume of open market investments owned by Federal Reserve banks. Feb. 1, 1928, is the approximate date of discontinuance of the 3½ per cent rediscount rate. Aug. 8, 1928, is the date of the lowest volume of open market investments owned by Federal Reserve banks in 1928, and this date happens to be one year after the approximate effective date of the 3½ per cent rediscount rate. Nov. 14, 1928, is a date one year after the date on which the highest volume of open market investments was held. May 22, 1929, is the date of latest available figures before publication of this article.

000 on November 16, 1927, a decrease in member bank borrowings of \$47,000,000. Deduct this figure from the increase in open market investments and we have a net increase of \$394,000,000 in total invested assets of Federal Reserve banks between August 10, 1927, and November 16, 1927. This net increase of \$394,000,000 voluntarily furnished to the money market by Federal Reserve banks during a period of approximately three months formed the basis of extensive loans abroad, stock market operations in the United States and heavy purchases of bonds by country banks.

### Credit Was Withdrawn

BY August 8, 1928, the volume of open market investments by Federal Reserve banks had decreased from \$1,037,000,000 to \$370,000,000, a decrease of \$667,000,000. In other words, this huge volume of credit was withdrawn from the money market by Federal Reserve banks and by the nature of operations of Federal Reserve banks this volume of credit was canceled and lost to the money market. The markets could not liquidate quickly enough to stand the cancellation of this enormous volume of credit, and a heavy burden fell upon the member banks. Member banks were obliged to loan freely to their own clients and to meet these demands, both commercial and speculative, were compelled to borrow heavily at Federal Reserve banks.

Their borrowings of necessity increased from \$367,000,000 on November 16, 1927, to \$1,061,000,000 on August 8, 1928, an increase of \$694,000,000, but the increase was only \$27,000,000 greater than the decrease of \$667,000,000 in open market investments held by Federal Reserve banks. It will be seen, therefore, that the total invested assets of the Federal Reserve System was increased only \$27,000,000 between the dates mentioned, and that the credit voluntarily furnished to the money market by the Federal Reserve System in November,

The burden was thus passed to the member banks, and it is this heavy volume of member bank borrowings, amounting to \$1,061,000,000, which the Federal Reserve Board has been endeavoring to have liquidated. The Federal Reserve System, except during the fall months of 1928, has continued to reduce the volume of its open market investments, and on May 22, 1929, the figure stood at \$291,000,000. Member bank borrowings on the same date had decreased to \$904,000,000, and the total invested assets of the system to \$1,195,000,000, a decrease of \$236,000,000 as compared with the total invested assets on August 8, 1928. It will be observed that despite the decrease of \$48,000,000 in gold holdings in the system between November 16, 1927, and May 22, 1929, the reserve ratio has increased from 70.8 per cent to 75.9 per cent.

### Brokers Bid for Money

WHEN the burden of supplying credit to the money market was passed to the member banks during the spring and summer of 1928, member banks, whose indebtedness was heavy at Federal Reserve banks, endeavored to liquidate and retire their indebtedness. Every bank operator in a financial center knows that when a reduction in loans is desired by a bank, brokers' loans are the first to be called, and it is only natural, therefore, that a reduction in brokers' loans was attempted by all banks. The supply of credit available for brokers' use was materially decreased.

Then the brokers started to bid for money and their bids of high rates drew money from all quarters. It is not unnatural, therefore, that corporations and others sufficiently fortunate to have an excess supply of funds available for investment no longer bought United States Treasury Certificates of Indebtedness and other government securities, but instead took advantage of the high rates being offered for loans secured by good

collateral and well margined. Banks, too, in various sections of the country having surplus funds took advantage of these rates and loaned heavily in the market. So there has been built up a tremendous volume of loans on collateral security with funds furnished by parties other than the New York banks.

The New York banks themselves on statement of May 22, 1929, were lending only \$827,000,000 out of a total of \$5,520,000,000 loaned to brokers, and the \$827,000,000 which the New York banks were loaning was only about 11.6 per cent of their item "Total Loans and Investments \$7,120,000,000." There is every reason to believe that the money furnished by outside sources will continue to be loaned as long as the brokers will pay high rates, and when high rates no longer prevail, the indication will be that the demand has decreased or the supply has increased. The brokers' loan situation without doubt could automatically correct itself, and the rate that brokers are willing to bid would control the situation. The situation has been well in hand, and if left to itself could be properly corrected.

### France in Control

DURING the period covered by this analysis the Federal Reserve System has lost gold in large volume. France took approximately \$500,000,000 in gold in 1928. In recent weeks the United States has gained gold in large volume from Germany, but we shall continue to lose gold to France during the balance of this year. The reserve of the Bank of France is approximately 45 per cent, and it is believed that the reserve ratio will be built up to 50 per cent. If this is done, over \$190,000,000 gold will be required and the United States will be called upon to furnish most of the amount. But France is cooperating and is taking gold only as it can be taken without disturbing vitally our money markets.

France controls the short term money market of the world today. The statement of the Bank of France of May 18, 1929, shows credit balances held abroad of 7,941,000,000 francs, and investments held abroad of 18,369,000,000 francs. Thus the Bank of France controls balances and short term investments in gold countries, chiefly New York and London, amounting to 26,310,000,000 francs, a dollar equivalent of over \$1,000,000,000. Perhaps \$400,000,000 of this amount may be used by the Government of France to retire its indebtedness due August 1, 1929, for post war purchases of war materials from the United States. The Bank of France will thereafter hold credits, largely in the United States, of over \$600,000,000, an amount sufficiently large to enable her to command gold at will for some time to come.

A large portion of the funds of the Bank of France employed in the United States are invested in bankers' acceptances, and during the year 1928, when money rates were rising, the Bank of France was at times the only buyer of  
(Continued on page 1268)

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|        |    |      |        |
|--------|----|------|--------|
| 125    | 74 | 333  | 7,992  |
| 470    |    | 204  | 3450   |
| 361890 |    | 1086 | 4560   |
| 34000  |    |      | 1560   |
| 19500  |    |      | 1570   |
| 5940   |    |      |        |
| 935    |    |      |        |
| 5800   |    | 1146 | 1460   |
| 20000  |    | 1101 | 1722   |
| 15500  |    | 2086 |        |
| 1500   |    | 333  |        |
| 1276   |    | 978  |        |
| 2000   |    |      | 74 863 |
| 500    |    |      | 74 292 |
| 5000   |    | 224  |        |
| 5000   |    | 203  |        |
| 5000   |    | 623  |        |
| 3300   |    | 106  |        |
| 10821  |    | 618  |        |
| 400    |    | 1115 |        |
| 1500   |    | 803  |        |
| 1600   |    | 95   |        |
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| ON OTHER BANKS | AMOUNT  | ENDORSER      |
|----------------|---------|---------------|
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| 83-98          | 124.75  |               |
| 32-78          | 79.86   |               |
| 34-29          | 579.86  |               |
| 73-278         | 13.20   | MCLAUGHLIN CO |
| 45-289         | 5420.36 | FERREE BROS   |
| 2-98           | 7986.42 | H ROMMEL      |
|                | 120.46  | J PARSONS     |
|                |         | PARSONS CO    |
| 34-07          | 132.06  |               |
| 1034           | 20.35   |               |
| 1768           | 342.05  |               |
| 9-34           | 168.42  |               |
| 71-23          | 57.89   |               |
| 2-98           | 3578.64 |               |
| 71-23          | 57.89   |               |
|                | 57.84   |               |
| 10-98          | 134.20  |               |
| 71-23          | 12.08   |               |
| 60-1034        | 337.42  |               |
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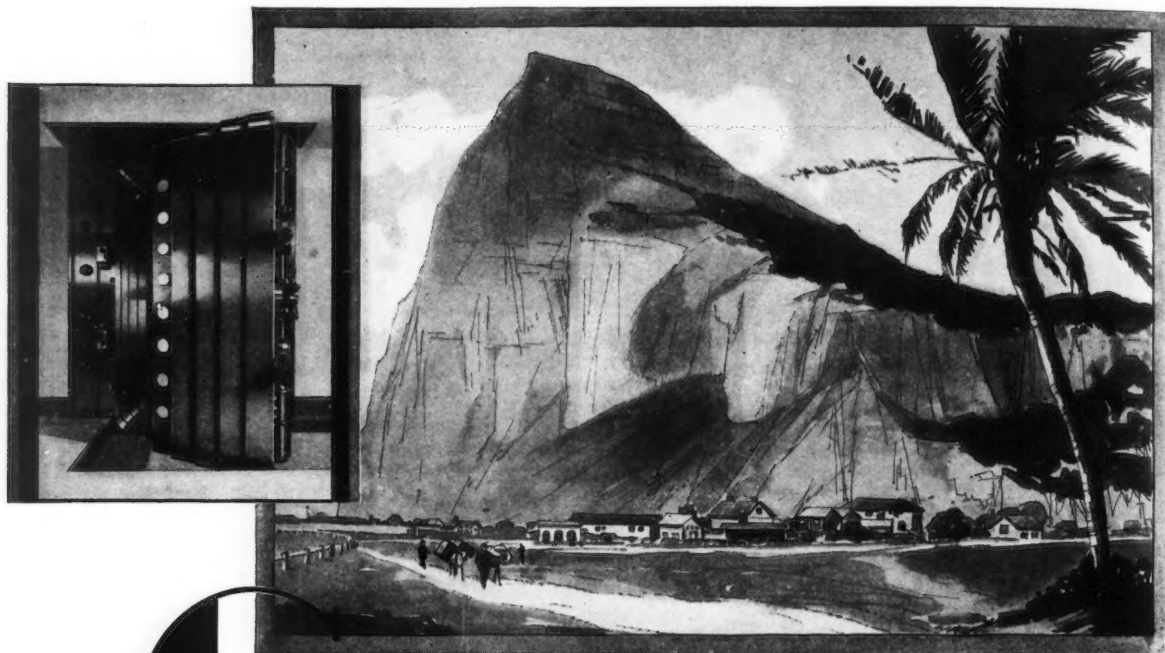
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# The Storm on the Reichsbank

By ROBERT CROZIER LONG

New German Currency System Has Withstood First Real Test. Mark Crisis in April and May Met by Reichsbank Despite the Outside Obstacles Which Complicated Situation. Result Seen As Encouragement to Holders of German Bonds and Securities.

**H**UNDREDS of normally sane persons, Germans and non-Germans, lost their heads suddenly in the last week of April, and began to sell reichsmarks against dollars and sterling at any price they could obtain, sometimes at a price materially lower than the price paid by the Reichsbank itself. Had they gone to the Reichsbank they could have bought all the dollars they wanted at 4.218 marks, at most, but they preferred to pay up to 4.24 marks in Amsterdam and Paris. They had no time to bother about small differences. They seriously believed that the mark was about to crash.

A first-class mark crisis prevailed in Europe sometime between April 27 and the 2nd or 3rd of May. It was a psychological crisis, not an economic crisis, but it had an economic background. Both the psychology and the economics are of supreme importance to the United States. The effect of a mark crash would be to obliterate large American investments.

It is true that American loans to private German corporations would probably not be jeopardized by a new mark depreciation, because most of the borrower corporations receive part of their revenues from export, that is in dollars and other sound foreign currencies. But the German states and municipalities which have borrowed in the United States have no revenues other than taxes paid in marks; and should the mark collapse the debtor bodies would be unable to buy dollars. At best the American creditors would have to wait until a new currency reform could be effected.

It is well to begin by declaring that there is no prospect whatever of any such tragedy happening. But what did happen is startling enough. What happened was a sudden reversal of everything that has been most marked in Germany's currency developments and policy since the stabilization of November, 1923. The dollar and the better European exchanges rose to or over the German gold export point. There was a tremendous drain upon the Reichsbank's reserves of gold and foreign exchange. A vast quantity of gold was exported. A heavy fall took place in the ratio of legal cover to note circulation. For the first time since the great depreciation of 1919-23 marks were sold and dollars were bought out of mere nervousness. The Reichsbank's discount rate was raised to the highest point for years. And finally, as this advance in



## Selling Squalls

**S**UDDEN squalls of nervousness which produced a wave of selling of marks in Germany passed almost without notice in this country but only the ability of the Reichsbank to ride out the storm prevented a panic. As pointed out here the now demonstrated strength of German currency should be of interest to many American investors who hold obligations payable in marks rather than in dollars. This is an angle of the German situation not always appreciated.

the discount rate proved ineffective, the Reichsbank was obliged to take other measures calculated to reduce the volume of its credits.

## Prevented a Panic

**B**UT that was not all. The enigmatical transfers question of which there was no concrete trace during nearly five years' history of the Dawes Plan seemed about to show itself. The Dawes Plan prescribed that if the transfer of Germany's various reparation payments, whether in cash or in kind, threatened to "destroy stabilization" of the currency, the Transfer Committee must suspend transfers, and accumulate the payments in the Reichsbank.

Were the necessity of this formally admitted, a serious blow would be dealt to confidence in the mark. There is no German law to prevent sales of marks. Should "transfers protection" be put into force, German citizens, with memories of the inflation fresh in their heads, would probably sell every mark they could lay their hands upon, and cur-

rency stability might be destroyed in spite of the "protection."

German currency experts long ago admitted that this result might ensue. Yet the most serious newspaper in Germany, the *Frankfurter Zeitung* predicted at the height of the April-May crisis that Herr Müller's Cabinet would soon be compelled to request the Transfer Committee to suspend transfers. The Transfer Committee, of which the Agent for Reparation Payments S. Parker Gilbert is Chairman, replied in an effective and reassuring way. It announced that it had carried out its usual monthly program of transfers. This helped to prevent a panic which would have been wholly unnecessary. The incident is mentioned only in order to show to what extremes nervousness went.

## Sales Out of Fear

**W**HAT was the foundation of the nervousness? The foundation was the belief that the Reichsbank, as a result of its shrunken reserves, would be unable to export gold further, or, what is practically the same thing, to redeem its notes by selling foreign exchange at par. For this fear there was no ground whatever.

True only is it that since the beginning of this year a number of financial factors, domestic and international, combined to make for an attack of unexampled fury upon the Reichsbank's reserves. First, the inflow of gold and foreign exchange declined heavily. In former years these came to Germany largely as the equivalent of foreign long-term loans. The Reichsbank's vast accumulation of gold was made possible by foreign loans. In the first four months of this year the value of foreign loans was only about half that of the same months of 1928. Past years also witnessed a large influx of foreign short-term credits, and up to 40 per cent of the deposits of leading banks represented foreign funds. This year funds went abroad as a reaction to high American money rates and to the advances in several European central-bank discount rates.

Secondly, numerous influences swelled the German demand for foreign exchange. Germany's non-reparation debt to abroad had grown. Year by year the cost of service of this debt increases. The passive foreign trade balance involves a continuing demand for exchange. Here indeed the position is improving,

for the import surplus of the first quarter year is only 470,000,000 marks, as against 1,007,000,000 marks in the same quarter of 1928. But a passive balance remains. The next factor is reparation transfers. In the present, the fifth year of the Dawes Plan, the reparation annuity is 2,500,000,000 marks, as against 1,750,000,000 marks in the former year. The increase automatically compels bigger transfers whether in cash or in kind. The cash transfer in the last reported month shows a sharp increase.

After the crisis began to develop there were heavy mark sales out of fear—*Angstverkäufe*, as Germans call them. Commercial firms with dollar liabilities maturing at some remote date bought their dollars at once in the fear that if they waited they might have to pay a higher price for them. Private German citizens bought dollars and sterling because they expected, quite unreasonably, a complete mark collapse. At the peak of the crisis French and Belgian banking firms withdrew deposits from Berlin banks. The banks attributed these withdrawals to deliberate mischief-making. But the retort is obvious; if Germans were themselves nervous about the mark why should not Frenchmen and Belgians be nervous? A final factor was the export of funds by German financiers who designed to profit from the very high money-rates in New York.

### Accumulated Gold

**T**HE heavy outflow of funds had its inevitable effect. The dollar and some other exchanges rose sharply. The German gold export point has of late been calculated at 4.217 to the dollar. At the end of last year the official dollar quotation in Berlin was 4.1995. At the height of the April-May crisis the Reichsbank was selling dollars at 4.218, and in private dealings a considerably higher price was paid.

After the beginning of February the Reichsbank set itself to stem the rise in the exchanges. The bank is not compelled to maintain the mark at gold parity, to export gold, or to convert its bank notes. Conversion will be compulsory only when the at-present-suspended Art. 31 of the Bank Law of August, 1924, is put into force. But more than three years ago the Reichsbank voluntarily undertook to maintain the mark at its full gold value and to export gold if necessary.

This undertaking the Reichsbank faithfully executed. But the result was the depletion of its reserves to a point very little above the legal minimum. By law the bank is required to maintain 40 per cent cover for its circulation, whereof three-quarters (30 per cent) in gold, and the remainder in foreign bank-notes, checks, or bills with not more than fourteen days to run. Dr. Schacht, Governor of the Reichsbank, however, holds that gold and not foreign exchange is the right cover for note circulation, and of late the cover has almost entirely consisted of gold.

This was achieved by a policy of gold-accumulation. In October, 1927, Dr.

Schacht told the Reichstag that "we have sufficiently replenished our gold reserve." But he continued the accumulation. At the end of 1928, the gold reserve was six-fold, its lowest post-war figure. That figure was 442,000,000 marks, and it was reached early in 1924. The increase after that was rapid:

| End of:   | Millions of Marks |
|-----------|-------------------|
| 1924..... | 760               |
| 1925..... | 1,208             |
| 1926..... | 1,831             |
| 1927..... | 1,865             |
| 1928..... | 2,623             |

As a result of the exchange crisis this gold-accumulation policy suffered a radical reversal. In four months this year, that is by the end of April, the gold reserve had gone back to 1,391,000,000 marks. The loss—732,000,000 marks—wiped out almost the whole gain of 1928.

### Drain on the Reserves

**B**UT the shrinkage of the Reichsbank's reserves was much larger than that. It was approximately 1,200,000,000 marks. Nearly 500,000,000 marks were lost from the bank's holdings of foreign bank-notes, checks, and bills. Only part of these holdings is specified in the bank's weekly balance-sheets. The "legal-cover exchange," that is such exchange as is earmarked as cover for circulation together with the gold cover, is shown but other holdings of exchange are not shown. They are booked together either with "discounts" (most of which are mark bills), or with "other assets." On both of these exchange holdings the Reichsbank had to draw heavily in order to maintain the mark. In 1928 the bank managed to increase its total reserves (including the exchange not earmarked as legal cover) by some 750,000,000 marks. In a mere four months of this year it lost from its reserves a sum 60 per cent bigger.

The quantity of a central bank's reserves is of course of no importance in itself. The importance lies in the ratio of reserves to circulation. Reichsbank circulation has been almost stable during the past year. At the end of April bank-notes in circulation totaled 4,631,000,000 marks, as against 4,409,000,000 marks at the same date of 1928. The enormous shrinkage of the reserves therefore heavily reduced the ratio of cover. At the end of January, that is just before the Reichsbank began its intervention policy in support of the mark, the combined gold and exchange cover was 65 per cent of circulation. Three months later, at the peak of the crisis, the cover had fallen to 43 per cent of circulation, was the lowest ever recorded, and was very nearly down to the legal minimum of 40 per cent.

This decline compelled the abandonment of a cardinal point of Reichsbank policy. This cardinal point was that 40 per cent of cover should also be maintained for the rentenmark circulation. Rentenmarks were the provisional currency introduced in 1923; and there are 490,000,000 marks of them in circulation today. The Bank Law does not require the Reichsbank to hold any reserve against them. But as they are being

withdrawn gradually from circulation and are replaced by Reichsbank notes, cover will ultimately be necessary. Dr. Schacht proclaimed that the Reichsbank ought to maintain a 40 per cent reserve for the combined Reichsbank and rentenmark circulation. Owing to the tremendous drain on the reserves, this policy was abandoned. The last Reichsbank return shows that if both classes of currency are counted, the reserve is down to 38.9 per cent.

### Rode Out the Storm

**S**O far the history of the April-May crisis is not very reassuring. Before the crisis the tremendous strength of the Reichsbank consisted in its maintenance of a reserve far in excess of that required by law. At times the reserve has been up to nearly 70 per cent of circulation. This element of strength has disappeared. But the object of a central bank reserve is to be used. Were a reserve never to be used it would not be needed. Regarded from this viewpoint, the "storm on the Reichsbank," as Germans call it, has been merely a severe but satisfactorily borne trial of strength. The Reichsbank rode out the storm.

The bank declared that it would continue selling exchange without any limit whatsoever. It kept its promise. During the worst part of the crisis any German could get all the dollars or sterling he wanted, and he could get this foreign exchange at a considerably lower price than panicky mark-holders were paying to private speculators after Reichsbank office hours. The first real test of the new currency system was successfully withstood.

Some authorities even think that the Reichsbank met the assault with too much self-confidence. It waited until the last moment, that is until April 25, before it advanced its discount rate. As events proved, this tardy advance of the rate could have very little effect; and in place of the new 7½ per cent rate a rate of 8, or 8½ per cent, or even higher may be seen before the summer is out. The bank, however, acted in accord with commercial sentiment, which at no time doubted that the mark exchange would be maintained, and which desired, if possible, to escape a discount rate advance at a time when industry and home trade are distinctly on the downward grade.

At the time this is written, the position is not fully cleared up. The heavy demand for exchange may continue. The trade balance is still passive, there is no prospect of considerable foreign loans or credits, and the method of settlement of the reparation transfers question is in doubt. The Reichsbank's reserves may further decline. But no doubt exists that the bank will continue to maintain the mark. It may advance the discount rate again. It can restrict credit by various means. In the first week of May it began restricting credit by ordering its provincial offices to scrutinize severely all bills handed in

(Continued on page 1273)

# The Most Satisfactory Way to Figure Interest

By J. V. HOLDAM

Assistant Vice-President, Chattanooga Savings Bank and Trust Company, Chattanooga, Tenn.

**Figuring Interest on Savings Accounts on Semi-Annual Basis from First of Each Month Is Preferred Method. Regarded as Fair to Both Depositors and Banks. Uniformity Is Essential. Thirteen Practices in General Use Viewed with Disapproval.**

**F**OR four years now bankers have been actively discussing methods of figuring savings interest. At first bankers were very much surprised to learn that there were any methods differing from their own. Then they held fast to the opinion that everybody was out of step but them. Now that serious reasons have been brought forward against such a divergence in method, they are still loath to depart from their own method.

And in the year of 1929 what is the stock argument against a change in interest method?—"We have always figured it this way." We have been, as suggested in Mark Twain's comment on the weather, always talking about it but never doing anything about it. That is, except the Savings Bank Division of the American Banker's Association, which now has out a report which is really a thoroughly intelligent and practical action on the subject.

But, regardless of how satisfactory different methods may be in themselves and to the banks using them, what is there that can be said in favor of a situation where banks on opposite sides of the street, advertising the same savings rate, will pay as interest on identical accounts different sums of money?

Four per cent suggests to the average man the accuracy of mathematics. Why, is not interest at 4 per cent arrived at by a mathematical formula? Could it ever differ? Is not 4 per cent 4 per cent everywhere? Could one bank's 4 per cent be greater or less than that of any other bank? The answer is "Yes, it not only could be but most often is different, even from the bank right across the street."

## Disapproved Methods

**N**OW just what does a bank receive for the additional interest that it pays out above that of a competitor? Nothing. Truly the public has a right to expect a No. 2 can of beans to be the same in size when purchased at any store. So also with a bank's 4 per cent.

What are the practices which the Savings Bank Division of the American Bankers Association does not recommend in its report on approved methods of figuring interest on savings? What

are the methods which it does not approve?

1. Days of grace. It is believed that that practice has outlived its usefulness, although something might be said on both sides of that question. At any rate there is something loose and indefinite about days of grace as shown by the number of depositors who request extensions when they get in late with a deposit.

2. The deduction of withdrawals from the original balance in a period or from first deposits. This method is considered unnecessarily liberal and some banks have recently abandoned it.

3. Interest from date of deposit to date of withdrawal. This method is considered unnecessarily liberal and requires entirely too much detail work in computation.

4. The rule also is eliminated which stops interest on the first of the previous month to the one in which the withdrawal is made.

5. The rule calling for the payment of interest on the lowest balance appearing in the interest period. The objection to such a rule is that the depositor has no encouragement in interest for increasing his balance during the period.

6. Allowing savings interest on average balances. That rule is not recommended because it is too liberal and it is too difficult to figure interest under it.

7. Two months notice of withdrawals. This rule has a great many variations, but is both awkward to the bank and irksome to the depositor.

8. Neither is the rule recommended which starts interest ten days after a deposit and stops interest ten days before a withdrawal.

9. A deposit must be in the bank three or four months before allowed to earn interest. Such a rule makes it necessary that interest be carried over and credited in a subsequent interest period.

10. No interest paid where more than some minimum number of withdrawals are made. That is a thing on which it is difficult to draw a line. It is perfectly proper where a depositor makes an unreasonable number of withdrawals on his savings account to have him transfer to the checking department.

11. All withdrawals in a quarter charged full three months interest. Also considered unfair to the depositor.

12. Withdrawals during month charged against lowest balance of month and not offset by deposits—again unfair.

13. Interest from date on all sums remaining to the end of the calendar month. Unnecessarily liberal.

So much for methods not approved. Now let us consider briefly the methods that are recommended. There are four. Two of them use the quarterly unit for computation, although crediting interest semi-annually. Two of them use the semi-annual basis. Two allow interest from date of deposit and two allow interest from the first of the month. In all four checks are deducted from latest deposits. All the recommended methods require a deposit to be in one full calendar month, to earn interest.

To designate them: Method A com-

putes interest quarterly from date of deposit. Method B computes semi-annually from date of deposit. Method C computes interest quarterly from the first of each month and Method D (described in detail below), which I prefer, computes interest semi-annually from the first of each month.

## More Costly to the Bank

**T**O select one of the four recommended methods we first have to reach a decision on whether we will allow interest from date of deposit or from the first of the month. Paying from date of deposit undoubtedly has the merit of being accurate and precise. It also requires a great deal of detail work in the making of actual calculations. While there are machines built to make these calculations, yet the objection is raised that in any event a very large proportion of such calculations are automatically wiped out, so to speak, by a fluctuation in the depositors balance. The work has gone for naught, which is not the case where transactions are taken into consideration by the group instead of individually.

Paying interest from the first of the month would seem to be simpler and should fit well enough into the plans, purposes and earning dates of most savings depositors.

Our next decision as between these four recommended methods will have to be between the quarterly or the semi-annual basis of computation. Remember that in the quarterly plans recommended the interest is actually credited only semi-annually. Probably the greatest argument against the quarterly period is the testimony of statistics, which seem to show that in cases the interest on an account figured on the quarterly basis may run as much as 300 per cent higher than where the same account is figured using the semi-annual period. Such a difference would not appear in most accounts, of course, but it is apparent that the quarterly period is considerably more costly to the bank.

That is because withdrawals in an account, on the semi-annual basis, have the opportunity to effect twice as large an area or length of time as on the quar-

(Continued on page 1285)

# Foreign Money in American Markets

By GEORGE E. ANDERSON

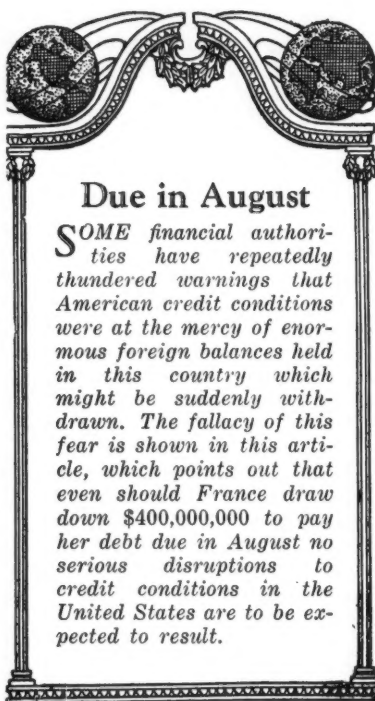
**Menace of Huge Foreign Funds Held in United States Doubted. Maintenance of Heavy Balances Here Considered Essential in Financing of Overseas Trade Transactions. Even Conversions by French to Pay Debt for Supplies Could not Affect Credit.**

IT has been only in the past three or four years that American financial authorities have come to realize that one of the concomitant reactions of world financial dominance into which the United States emerged as a result of the World War has been a vast increase in foreign deposits in American banks and in foreign holdings of unmatured American bills, commercial acceptances and other short term capital commitments.

Almost immediately after the war it was realized that there had been a large increase in foreign deposits in the United States and it was estimated by the Department of Commerce that at the end of 1926 the gross debt of American financial institutions to foreigners on this account was \$2,250,000,000 of which about \$1,500,000,000 was in the way of deposits in American banking institutions. At the end of 1927 it was estimated that the gross amount due foreigners was \$3,100,333,000 of which foreign deposits in American banks amounted to \$1,937,989,000. The estimate of such indebtedness at the close of 1928 was a gross of \$2,985,141,000 of which \$1,750,943,000 was in deposits in American banks.

Total short term funds due from foreigners at the end of 1927 amounted to \$1,236,137,000 and at the end of 1928 they amounted to \$1,347,047,000 of which \$233,152,000 and \$198,050,000 respectively were American deposits in foreign banks. The total net short term funds due from the United States to foreigners at the end of 1927 amounted to \$1,864,196,000 while at the end of 1928 the net amount was \$1,638,094,000 of which \$1,440,044,000 was the amount of foreign money deposited in American banks in excess of the amount of American money deposited in foreign banks.

In other words there is deposited in American banking institutions a sum of money somewhere between \$1,500,000,000 and \$1,750,000,000 subject to foreign check. Although this sum represents a substantial reduction from the amount of money so placed in 1927 the amount of money deposited by foreigners in American banking institutions and the amount of foreign money placed on short term loans in the United States, which for purposes of international finance may be classed in almost the same



## Due in August

*SOME financial authorities have repeatedly thundered warnings that American credit conditions were at the mercy of enormous foreign balances held in this country which might be suddenly withdrawn. The fallacy of this fear is shown in this article, which points out that even should France draw down \$400,000,000 to pay her debt due in August no serious disruptions to credit conditions in the United States are to be expected to result.*

category as bank deposits, is a very highly important factor in American international finance. That American financial institutions may be called upon at any time to part with any considerable portion of these deposits constitutes, in the opinion of many American financiers, a menace to the stability of the American financial situation.

## Will Ebb and Flow

UNDOUBTEDLY such is the case if this vast amount of money deposited in American institutions is in fact subject to more or less immediate withdrawal from the United States. It can also be readily appreciated that the control of so great an amount of liquid capital in American finance by foreign interests may at any time exert a dangerous and perhaps sinister influence upon the whole course of American finance. However, these dangers are predicated upon the assumption

that these deposits of foreign funds in the United States are more or less temporary, that they are subject to the control of their owners, and that they can be reconverted into foreign currencies and withdrawn from the United States at will.

The fact of the matter is that these funds are deposited in the United States in accordance with financial laws of world wide operation which have forced them here; that no considerable portion of these funds can be permanently withdrawn from the United States save at the financial peril of the owners; and that so long as they are in the United States these funds are subject to the laws of supply and demand, and other factors in the money market in much the same manner as domestic funds are controlled and used. In other words, financial conditions in the world at large are such that foreign funds now deposited in the United States are more or less stabilized as a part of permanent American supplies of money and credit. Naturally there will always be more or less ebb and flow in the volume of such deposits but on the whole the present volume will remain stable and, as international trade improves, will tend to increase.

## France Agreed to Pay

THE subject is of peculiar interest at the present time in view of the current discussion of the possibility or even probability that the government of France will use the French portion of these foreign holdings in the United States for the discharge of some of its indebtedness to the government in Washington. At the close of the World War the government of France took over the bulk of American war munitions and supplies in France at the time for which the French government agreed to pay the United States Government \$407,000,000 in ten years.

This debt falls due in August of the current year. Its payment has been provided for in the debt settlement between the United States and France which is yet to be ratified by the French Chamber of Deputies. Unless the debt settlement is ratified before August this special debt of \$407,000,000 will become

(Continued on page 1274)

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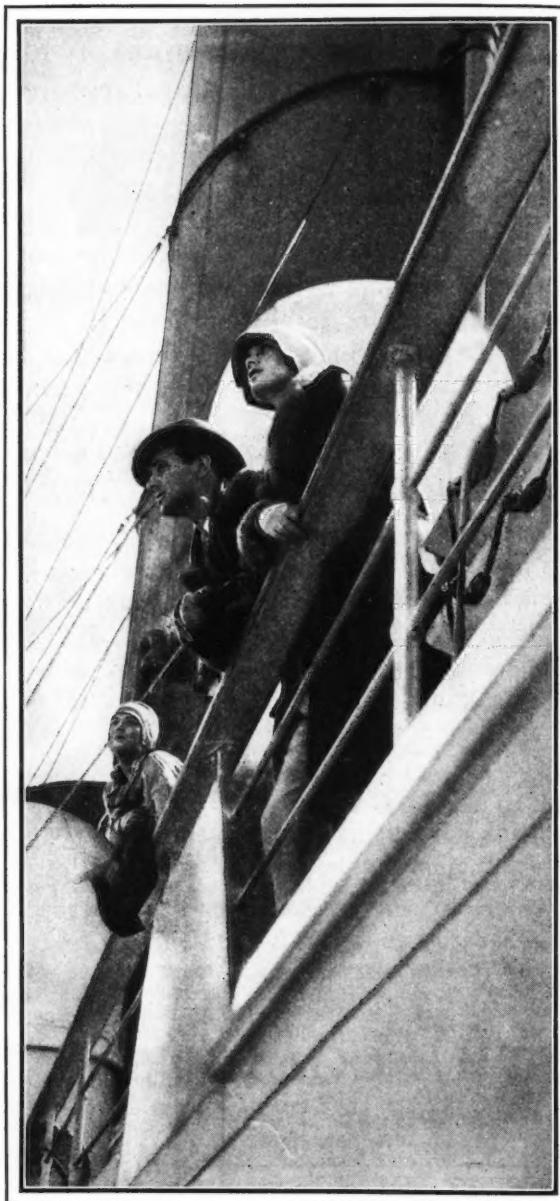
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# Credit History Repeats Itself

By C. A. WORTHINGTON

Deputy Governor, Federal Reserve Bank of Kansas City

Present Credit Conditions Likened to Those of Decade Ago. Elementary Principles of Federal Reserve System Explained in Light of Policies Then and in Recent Months. Advantages of Financial Statements for Borrowers from Banks Stressed.

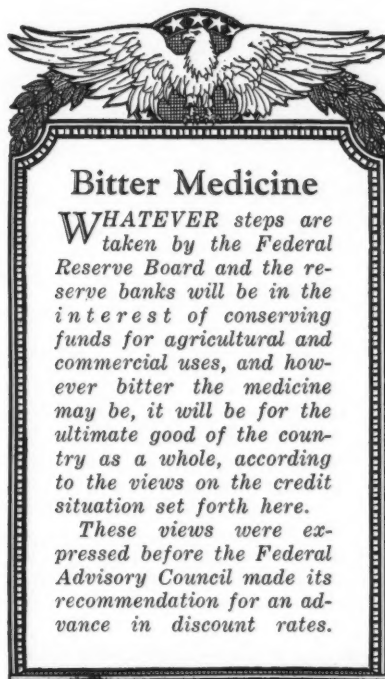
**N**OTWITHSTANDING the publicity which has been given to the operation of the Federal Reserve System and the efforts that have been made to explain the principles and objects of the Federal Reserve Act, there is still considerable misunderstanding of the functions, policies, powers and limitations of the Federal Reserve banks and of the Federal Reserve Board. As a result, some of the member banks, even now, fail to avail themselves of services the reserve banks are in a position to render, which would save them many thousands of dollars.

I should like to recall a little of the history of the Federal Reserve Act and the primary object in the establishment of the Federal Reserve System. The Act was not a hastily drawn bill to meet a sudden emergency, but was the result of years of study by the National Monetary Commission and came into existence in fulfillment of a demand for a more elastic currency to meet the requirements of a constantly expanding business in this great country, to afford a means of rediscounting commercial paper, in order to facilitate production of commodities and their movement through market channels, and to establish a more effective supervision of banking. The Federal Reserve System was not created solely for the purpose of preventing panics, nor to correct imperfections in our monetary system.

It was created to broaden our activities, by so centralizing reserves and note issues as to place the bankers of this country in position to compete on an equal plane with the bankers of other nations, to afford means of guarding our stock of gold, and to place the United States in the first rank among the nations of the world in finance and trade. This has been accomplished and now the American dollar is the principal medium through which the world's commerce is transacted. Last year there were financed by means of American bankers acceptances (drawn in dollars) transactions involving more than \$7,000,000,000. Of this total, a little more than 80 per cent covered import and export transactions and goods stored or shipped in foreign countries.

## Warned the Bankers

**I**T is certain that our old banking system would have collapsed under the strain which would have been imposed



upon it by war conditions, and even had there been no war, the old system would have been unable to respond to the business requirements of the present day. Nevertheless, abuse has been heaped upon us for many things, some that we have done and some that we have not done; but to those of us who have watched carefully the development of the System there is a feeling that much of the criticism has been due to misunderstanding or worse. To go back ten years one will recall the so-called deflation period after the war, which the Federal Reserve Board and the Federal Reserve banks were charged with having created. The facts, as brought out through a Congressional investigation, refute such charges.

It is true that in 1919 there developed a period of unrestrained extravagance and abuse of credit. It became evident that the rediscount facilities of the Federal Reserve banks were being used too freely and that unless corrective measures were applied the situation would become exceedingly dangerous. The attention of the public was directed to this

condition on several occasions in the hope the situation could be controlled without advancing the discount rates. The Federal Reserve Bank of Kansas City issued a circular in September, 1919, warning the bankers of the district of the necessity for contraction of credit and predicting a stringency for 1920 exactly in accordance with the occurrences of the last half of that year. In fact, so nearly was the prediction verified that, if it were to be rewritten today as a history of the financial conditions of 1920, it would need practically no revision.

## Saved the Nation

**T**HESE warnings were unheeded, and it became necessary to advance discount rates and to impress upon member banks the desirability of curtailing loans upon non-essentials and eliminating loans for speculative purposes. No attempt was made to dictate to member banks the character of loans they might make, but the Federal Reserve Act imposes upon the directors of Federal reserve banks the obligation to extend to member banks only such "discounts, advancements and accommodations as may be safely and reasonably made, with due regard for the claims and demands of other member banks." Under this provision of the Act, the directors have the power to limit the volume and character of loans which in their judgment may be safely and reasonably made to any member bank.

In the discounting of eligible paper, therefore, the exercise of judgment is mandatory, and it was through the exercise of such judgment and the raising of discount rates, at a time when all other corrective measures had apparently failed, that much criticism of the Federal Reserve System arose. At no time, however, did the Federal Reserve Bank of Kansas City refuse to extend all the credit necessary for the legitimate needs of commerce and agriculture, even to the extent of borrowing millions from other Federal reserve banks for the benefit of this district. In the light of later events our action was fully justified. It is our observation that many of those who were our severest critics have since commended us, and the Federal Reserve System undoubtedly saved the nation from what would have been the greatest panic in history.

(Continued on page 1261)

# A Buyer's Guide to Bonds

By JAY MORRISON

Vice-President, Washington Mutual Savings Bank, Seattle, Washington

**Profitable Bond Buying Depends on Level of Interest Rates. Safe Guide for Institution Said to Be to Purchase What the Salesman Does Not Want to Sell. Requirements of the Lender and Borrower Conflict. Proper Depreciation Item to Consider.**

**T**HE bond requirements of a savings bank are, perhaps, nearer those of a fire insurance company than of any other institutional investor. Fire insurance companies are, of course, subject to sudden call for large amounts of money. Their bonds must be of such character that they are readily salable in the market. Life insurance companies do not require the same degree of liquidity in their bond investment accounts as does a savings bank.

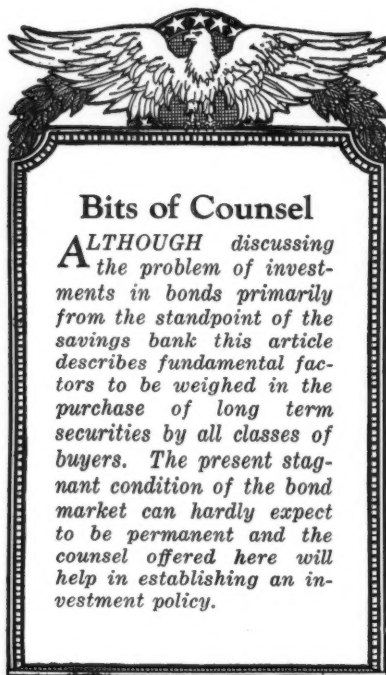
But not all the bonds of life insurance companies are slow selling, and not all the bonds of savings banks are required to possess the highest degree of salability. In each instance the investing institution buys some bonds readily salable, and others of lower marketability.

Consider the problem of an investment committee charged with the handling of a bond account of a savings bank. That savings bank, we will assume, has assets of \$100,000,000. We will further assume that it carries 60 per cent of its assets in real estate mortgage loans; 2 or 3 per cent in cash; and the remainder in bonds of greater or less marketability. What will be the attitude toward the different classes of bond investments, and toward long-term or short-term bonds, optionally-callable bonds, or non-callable bonds? Will the committee favor high-coupon, short-term bonds such as were offered investors during 1920 and 1921; or will it favor low-coupon, long-term bonds such as were commonly issued about the turn of the century?

## High Priced Bonds

**N**EARLY everyone is conversant with the theory of investment, which says that in a period when interest rates are high and are about to decline it is advisable to buy long-term, non-callable bonds. On the other hand, when interest rates are low and about to rise it is desirable to buy short-term securities. Reversing that process can lead only to very severe losses.

In 1901 United States Government 4s of 1925 sold at 140. In 1907 they sold at 115—a loss of 25 points in six years. Without any elaborate calculations it can be seen that a \$1,000 bond would have paid \$240 interest in the six years, and the loss in price would have been \$260, so that the net return to the in-



### Bits of Counsel

**ALTHOUGH** discussing the problem of investments in bonds primarily from the standpoint of the savings bank this article describes fundamental factors to be weighed in the purchase of long term securities by all classes of buyers. The present stagnant condition of the bond market can hardly expect to be permanent and the counsel offered here will help in establishing an investment policy.

vestor buying and selling at the prices named above would have been practically nothing.

A still more striking illustration of the loss incurable through the purchase of bonds at high prices—that is, on low interest rates—and their sale at a time of high interest rates, may be had by looking at the Civil War bonds of the United States government, particularly the twenty-year 6s of 1881. In 1876 these bonds sold at 129, and one year later sold as low as 103—a loss of 26 points in one year, or 20 per cent in addition to the interest paid. It should be borne in mind that the fact these were high premium bonds had nothing to do with the case. The same losses can be had through the purchase and sale of bonds selling at a discount.

In 1907, Northern Pacific 3s of 2047 sold at 74½. Later in that same year they sold as low as 62½. Fluctuations in bond prices are due primarily to fluctuations in rates of interest, and, of course, the wider fluctuations in price will be in those bonds of remote maturity. It would appear, therefore, sound

to follow the long-term program as first outlined.

## A Bit of Wisdom

**N**OW, what happens in the bond market? In times of money strain corporations commonly put out short-term, high-coupon obligations, and these are offered to institutional investors by the bond salesmen. High-coupon bonds, put out bearing a call price within a short time after their issuance, and with a call price very near the issue price, are, from the buyers' standpoint, just about the same as short-term paper. If interest rates decline or the borrower's credit improves, the borrower will call the loan.

When interest rates are low borrowers know their business and issue predominantly long-term, low-coupon bonds; or, if high-coupon bonds are issued, they are sold at high prices.

In 1920 and 1921 bond salesmen crowded the offices of buyers, and urged upon them high-coupon and short-term bonds. That was the time when long-headed institutional investors purchased the low-coupon, long-term, non-callable bonds. Northern Pacific 3s, heretofore mentioned, sold as low as 49 in the post-war panic. Central Railroad of New Jersey 5s of 1987, which had sold as high as 142 in the early years of the century, sold at 90 in 1920. These bonds have subsequently sold as high as 118.

It appears, then, that when one should buy long-term, non-callable bonds, the bond salesman offers him short-term, or callable, bonds. Stating it another way, we may say the bond salesman always offers the bond buyer the right bond at the wrong time. And, phrasing this bit of wisdom—if it is wisdom—in a rule as a guide for conduct, one should say that the institutional buyer should never, or rarely, buy the bond the bond salesman offers him. Always buy what he does not want to sell.

## Proper Depreciation

**T**HERE is also a question of bond-buying that has to do with the analysis of the statistical data submitted in connection with the bonds. Many bonds are offered to bond buyers with an income statement of the corporation, which will run something like the following:

(Continued on page 1277)



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# Bank Control of Call Money

By CARL WILSON

**Substitution of Time Loans for Call Money Considered Wrong Approach to Problem of Violently Fluctuating Rates. London System Discussed. Responsibility for Present Condition is Placed on Lenders Other than Banks. Invaders Control Market.**

**J**UST about a year and a half ago the Federal Reserve authorities made a startling discovery. They found that there were forces in the money market which were beyond their immediate control.

This discovery was the now famous "others"—the corporations and individuals attracted into the call loan market by the lure of high rates. They are the sources other than banks which furnish the supply of call money. The steady advance in the volume of loans to brokers and dealers in securities has been the measure of their attraction to the call market.

Revelation of the extent of the new forces in the money market came in the fall of 1927. Things had begun to hum in the stock market during the previous summer. In the fall and early winter the Federal Reserve authorities began their attempt to put on the brakes. Notice was served on the banks that the supply of Federal Reserve credit used to finance speculation in stocks would be shut down. Promptly, bank loans to brokers declined.

But with equal promptness similar loans for the account of "others" increased. The net result was that the volume of brokers' loans continued to grow. Federal Reserve policies had their effect on rates, but the higher money rates went the more funds became available for financing transactions in securities.

## Gyrating Call Money

**M**EANWHILE there was no diminution in the forced draft gait of the stock market. Accompanying the record-breaking activity of the exchange there has been a gyrating call money market. Its violent fluctuations have recently, although temporarily, produced 20 per cent money. However, it has been the frequency of 8, 10 and even 12 per cent call money that has acted as the spectacular magnet for the funds of "others."

Notwithstanding the at times dramatic ups and downs of the call rate, the stock market has persistently maintained a high level of values. During the last two years, at least, the market has demonstrated that it can get money by bidding for it. It made the same discovery the Federal Reserve authorities did: that if the banks will not supply funds the "others" will. As this is written the Federal Reserve System's

policy for contracting the volume of credit available for speculative purposes is still in the trial stage. Federal Reserve authorities can get at the "others" only through the banks, which is a very different thing from the application of their policies directly upon the banks.

As a consequence of the events of the past year or so, and particularly because of the gymnastics of call money rates, it is being said with increasing emphasis that the banks have lost control of the money market. Such a view is gaining adherents. It is held by a number of thoughtful bankers. Some of them even contend that until there is some stability in the rates charged for funds loaned for stock exchange purposes there can be no return to the normal condition of banking control of money and credit. And by stability of rates is meant a level below that which has been the equivalent of window dressing for the call market.

## The London System

**V**ARIOUS methods, chiefly based upon some sort of Congressional action, have been advocated for halting speculation, controlling brokers' loans or stabilizing call money rates. The same end has been described in different ways in different plans. The prospect of more legislation has been sufficient to prevent most of the proposed plans from gaining any imposing array of followers.

There has been of late, however, a very evident interest displayed, especially among bankers, in the suggestion which has been made from time to time in the past that the New York Stock Exchange adopt the London Stock Exchange system of settling its transactions semi-monthly instead of for cash as at present. The theory of the proposal is that semi-monthly settlements would prevent violent fluctuations in the rates for funds used to financing trading in securities as rates would be stabilized at the regular settlement dates. The effect of such a system, it is argued, would be to discourage the "others" from lending money for stock market purposes and the banks would regain control of this class of credit.

Perhaps the most outspoken recent advocate of a change to the London system has been William Peter Hamilton, editor of the *Wall Street Journal*, who in a recent article said:

"The New York Stock Exchange has in its power the means of regulating the call money

market safely; it can do more in a few days' consideration by the governing committee than the Federal Reserve Board could do with all the powers of Congress behind it.

"The most important difference between New York and London methods of trading on the Stock Exchange is that New York trades for cash, with deliveries on the following full business day, and London, with certain exceptions, trades for a settlement day at the middle and end of the month.

"New York call money rates fluctuate sharply under certain conditions. But no such disturbing fluctuation is possible in the London market, however stringent the price of money may be. With transactions made for the middle and end of the month a Stock Exchange loan becomes a time loan, even if the time is short. As a result, the London market stabilizes the money rate by means of its semi-monthly settlement.

"The adoption in New York of a modified form of semi-monthly settlements would go far toward stabilizing the money market, and thus minimize the possibility of rash legislation by Congress. The periodic settlement could be optional, and trading for cash would continue when preferred by the customer or recommended by the broker."

By virtue of its system of semi-monthly settlements London has no call money market in the American sense. Obviously the adoption of some modification of that system in this country would destroy the call market to the extent that trading was for a settlement at a future date and not for cash.

## Banks Forced Out

**T**HERE are other differences between the London and New York trading practices beside the method of settlement. The whole scheme of trading in securities in London differs widely from the American system. One of the most striking is the relation between the broker and his customer. In London a broker can not close out his customer by buying or selling stock during the course of a settlement if margins are depleted by changes in the price of stocks in which the customer is speculating. The contract between the broker and the customer can only be terminated at the next settlement day. Should a broker sell out his customer on a decline in prices and the stock should recover later on so that an actual profit could be shown the broker would have to make good.

From a stock market standpoint there seem to be both advantages and disadvantages in the London system as it might be applied to New York. From the banking standpoint the question of call money only is at issue in the consideration of the suggested change. There the disadvantages would seem to outweigh the advantages.

If the argument that the banks have  
(Continued on page 1277)

# Loan Administration Management

By FRANK W. SIMMONDS

Deputy Manager, American Bankers Association

High-lights of a Special Study of Scientific Loan Policies.  
Intelligent Conversion of Bank's Funds Into Earning Assets  
Called Most Vital Phase of Management. Borrowers Should Be  
Required to Demonstrate Right to Credit by Their Balances.

**M**OST bankers have been so busy thinking and talking better organized management with commercial customers during the past few years that until now too little has been done and written in the vein of thoroughly modern management practice for commercial banking institutions.

But at last bankers have recognized that the same principles which have brought multiplied success to individual corporations—functionalized organization, cost knowledge, budgeting, measurement of individual effort, management by fact rather than opinion—apply with equal force to the bank itself. And since this basic fact has won recognition among bankers, a movement to apply the idea and to perfect the details is sweeping through the banking profession in a characteristically American way.

To help provide the basis for a study of general bank management and its application the Clearinghouse Section of the American Bankers' Association is preparing a series of booklets on different phases of the problem. The material collected for these studies represents the collective efforts of several score of the successful bankers of the country. The first booklet of the series, dealing with loan administration policies has been completed. Others will include such subjects as security buying, capital structure, primary and secondary reserves, and profit and loss operation.

It will be possible here only to indicate some of the high-lights of the results of the study of loan administration policies, especially the fundamentals upon which the new science of bank management is being built. Nowhere is the importance of a thorough understanding of the fundamentals of a science better illustrated than in management.

## The Most Vital Phase

**P**ROPER loan administration policies are essentials to that primary function of a bank which is the conversion of its funds into earning assets. That is the function which deals with the changing of the bank's deposits and invested capital into earning assets, such as loans and discounts, bonds and other securities, call loans, bank acceptances, commercial paper, etc. It also deals with the sound and intelligent administration of these earning assets. Sound



## New Equipment

**T**HERE is outlined here the first of a series of booklets being issued by the Clearinghouse Section of the American Bankers Association setting forth the fundamentals of the new science—the science of management—which is becoming an essential to the equipment of the modern banker. The principles presented are the results of the thought and experience of leading bankers all over the country, and are offered as a guide to the accumulation of profits and the conduct of sound institutions.

administration means safeguarding the principal of each asset, assuring the liquidity of the bank, maintaining a strong balance sheet position, and obtaining the highest possible income yield consistent with safety and liquidity.

The intelligent conversion of the bank's funds into earning assets in all its various aspects is perhaps the most vital phase of bank management, for safety in the management of the bank's funds and adequate income are the essential elements in a program of good banking. Such is the central thought of the booklet.

Effective fund conversion concerns itself with both liquidity and profits. If we are to manage only for profits, we should find that profits would probably increase during a short period of time and that assets would probably become frozen; as a result, our charge-offs from losses would increase and absorb the profits of the apparently prosperous years. On a long time basis, therefore, the actual profits, in the bank whose sole objective is profits, would be below

those of a bank which had the two objectives—liquidity and profits.

## Constant Temptation

**A** BANK should give careful study to loan administration policies if it wishes to protect its depositors, earn an adequate return for its stockholders, and promote the best interests of the community. The bulk of bank failures and the frozen condition in which some banks have found themselves have been due largely to management that sought temporary profits at the sacrifice of liquidity. The conversion of the bank's funds into various earning assets is, therefore, the most important function in bank management.

How the bank's funds may be converted into various assets, with the proper ratio of each asset, is the next problem. Under a conservative program it should: (1) maintain a strong cash and secondary reserve position in order that depositors' demands may be met at all times, and (2) obtain a reasonable return with a high degree of safety in the investment of its funds.

There is a constant temptation for a bank to loan all of its funds or a large proportion of them within its local community. While the local demand may at times be sufficient to use all funds not in cash or secondary reserves, conservatism requires diversification of the bank's funds. The conservative investment course is also usually the more profitable. Here is an illustration which is typical of the advantages of a conservative liquid program:

## Liquidity Factors

**O**F two banks located in the same town, one placed 82 per cent of its funds in local loans, perilously disregarding the liquidity of its funds; the other bank loaned 42 per cent of its funds locally. For the first bank, 5 per cent, and for the second bank 21 per cent of the available funds were placed in government and municipal securities. In both cases other funds over and above cash were invested in the various standard types of bonds and mortgages. The bank which invested almost all of its funds locally received 6.6 per cent return; the other bank, 5.24 per cent. The greater expense connected with making local loans, as compared with outside investments in the first case, was .81

(Continued on page 1278)



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# The Employment of Bank Funds

By HENRY SWAN

Vice-President, The United States National Bank, Denver

Condition of Money Market Guide to Bank Investment Policy.  
Banker Whose Watchful Eye Is Able to Detect Indications of  
Inflation Can Best Utilize a Program for Employment of His  
Funds. Diversification Depends Upon Character of Deposits.

**D**URING the World War, America became the repository of over half of the gold supply of the world. After the war was over and the deflation of commodities began in earnest, only those institutions survived which had that type of paper the value of which, while affected by changes in commodity values, was not annihilated. Those institutions having a proper regard for the employment of their funds along those scientific lines best adapted for their local conditions survived even though deflation occurred.

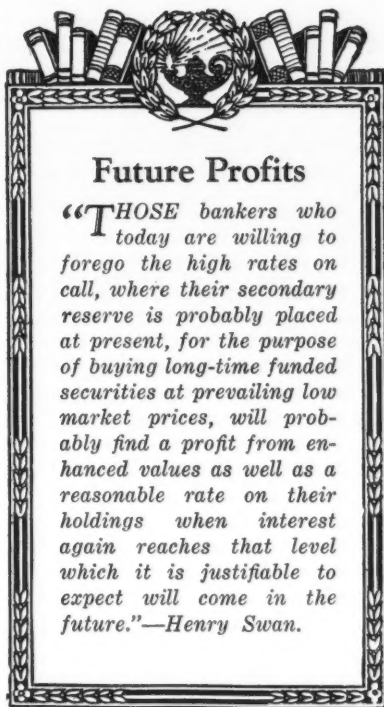
The gold which the United States had gathered did not immediately leave the country and naturally became the basis for a very considerable volume of credit. This extension of credit and the capacity of the public for investment has changed in many respects the relation of industry to the banks. In recent years of easy money not only have many corporations had huge surpluses in cash to make available to borrowers, but many corporations have found that by distribution of preferred and common stocks to an eager public they have been able to fortify themselves with liquid assets sufficient in amount to preclude the necessity of their approach to their old banking friends for credit lines. This growth in credit has been accompanied by a growth in bank resources as well as resources of other institutions, such as life insurance companies, who, in turn become beneficial lenders but largely on long-time credits.

A part of the void created by the retirement of many corporations from the borrowing field has been filled by new types of finance which have long been extant in Europe but only recently adopted by the United States. Banks have also had to turn to long-time credits in larger measure than heretofore.

## First Duty to Depositors

**T**HERE naturally can be no hard and fast or exact rule as to the employment of bank funds which will apply with equal force to a bank located in a mining camp in the West and to one located in a large manufacturing community in the East.

The relation of time deposits to demand deposits is also a variable factor. The amount of capital, surplus and undivided profits to total deposits requires consideration. Whether a bank is a state bank not a member of the Federal Reserve System, or whether it is a national



bank and a member of the Federal Reserve System, affects in some measure the determination of an investment policy. Offhand, it is quite probable that the average banker feels that his primary business is in the placement of the funds of his bank in loans to individuals and corporations located in his community, and if this demand does not use up his available resources he should then turn to some outside fields for the employment of the surplus moneys. This is true to a very considerable degree but not so wholly true that it may be accepted without question. It is a duty of a bank to serve as a convenience for the community in which it is located in so far as its deposit, collection, exchange, trust and other similar services are concerned. But its first duty is, of course, always to its depositors. The officers of the bank should so conduct the institution that while it may help to furnish the credit requirements along sound and liquid lines, it should bear in mind always that its distribution of investment, whether in loans, government securities, bankers'

acceptances, real estate mortgages or other types of investment, should be so diversified that these investments will be available at all times to meet the calls which may come upon it.

## Average Holdings

**I**T is obvious that the larger the relation of time deposits to total deposits, the larger the percentage of long-time investments, such as bonds, may be made; whereas, the larger the proportion of demand deposits to the total deposit liabilities, the larger proportion of funds must be available in the form of short-time credits of a high degree of liquidity or marketability or availability for discount at the Federal Reserve bank.

It is this analysis of the condition of each bank that makes it possible for its directing officers to adopt a policy which, while conforming to the underlying principles of sound banking, will nevertheless serve the needs of the community in so far as these may be proper and safe and at the same time provide for the depositor that degree of safety which he is entitled to expect and produce for the shareholders that profit which they are justified in receiving.

In general, it may be said that an analysis of the practice of reporting banks all over the United States would indicate that the average bank would hold:

|                                     | Per Cent |
|-------------------------------------|----------|
| Cash, exchange and Government bonds | 25       |
| Other bonds                         | 10       |
| Loans and discounts                 | 65       |

These figures could not be taken as a guide for all banks as, of course, there are wide variations in the necessities of some banks due to their location in industrial, agricultural or manufacturing territories. Seasonal demand will alter these figures greatly. The character of the bank's clientele will also have some relation to the financial policy to be adopted by the officers of the bank in the placement of its funds. If these seasonal fluctuations appear in the discount portfolio, the same fluctuations will undoubtedly appear in the deposits.

## When Money Is High

**T**HE character of the customers of the bank will influence greatly the formulation of such an investment policy on the part of its officers. If a bank has  
(Continued on page 1272)

# Inheritance Tax Reciprocity

By REUBEN A. LEWIS, JR.,

Deputy Manager, A. B. A., Trust Company Division

**Twelve States Strike Blow at Multiple Taxation by Passing Laws Granting Reciprocal Exemption On Stocks and Bonds in Estates of Non-Resident Decedents. Will Greatly Simplify Settlement of Estates. Michigan and Missouri Now On List.**

**T**HE news that twelve states have passed laws during 1929 granting reciprocity in inheritance taxes on stocks and bonds held in the estates of non-resident decedents will be hailed with real satisfaction by the trust officers of our banks and trust companies. There is probably no one step in the settlement of an estate that has caused more irritation than that of paying taxes and obtaining waivers from the various states, which are required before securities may be transferred and sold by the executors.

Doubtless the most cheering feature of these tidings is that Missouri and Michigan, two of the states which have had the most severe regulations, are numbered among the states which took this action. It was not an uncommon experience for an executor of the estate of a non-resident to wait six or more months before tax waivers could be gained from Missouri, where a local administrator had to be appointed mainly for the purpose of collecting the inheritance tax. In Michigan, where it has been necessary for the executor to file a petition and be represented in the court of probate by an attorney, the cost of obtaining the waiver has frequently been more than the actual tax itself.

Besides Michigan and Missouri, the Special Committee on Taxation of the Trust Company Division, which in co-operation with the National Tax Association and other organizations has been actively promoting this legislation, has been advised of the passage of this measure in Arkansas, Idaho, Iowa, Indiana, New Mexico, North Carolina, South Carolina, Washington, West Virginia and Wyoming. In Texas, the bill has passed both houses but, at this writing, it was not known whether or not the Governor would sign it.

## Thirty-five States on List

**W**ITH the addition of these twelve states to the reciprocal list, there are now thirty-five states and the District of Columbia, which either have no inheritance tax, do not tax the intangible property of non-residents, or grant reciprocity on this class of personal property.

From these totals, it will be seen that the fight on multiple taxation which started in earnest four or five years ago has progressed more than two-thirds of the way. With most of the states serv-

ing as the home of the great corporations within this reciprocal group, it is confidently anticipated that most of the others will fall in line because large investors are discriminating in their choice of securities. Big business is not unmindful of the situation. One great oil company, which was incorporated in a Western state, took out a charter in one of the Eastern states in this reciprocal list because the Western state did not offer the same favorable terms to the residents of other states who owned its stock. Another great corporation, doing business in all states, changed the state of its incorporation for similar reasons and publicly made known its reasons for taking this step.

## Sextuplicate Taxation Possible

**I**N the case of some securities, such as those of a great railroad owning property in several states, it has been necessary for executors to get tax waivers from as many as six states. As there has been no uniform rule under which the taxes were levied or assessed, it has been necessary for executors to ascertain and meet the requirements of each individual state. Thus they have had to supply each state with a certified copy of the will, a certificate of appointment as executor and later prepare and file each particular state's form of inventory, listing in detail the entire assets of the estate and giving full particulars as to debts and other deductions. There was further trouble in those states which did not permit executors to deal direct, but required the proceedings to be conducted by a local attorney.

Where there were several blocks of stocks and bonds of corporations organized in several states in one estate, it may be appreciated that the expense of obtaining these waivers was not inconsiderable.

The revenues obtained by the states from taxing the intangibles of non-resident decedents have not generally been very important. In 1925 it was estimated that the amount of the tax collected annually by all of the states would not exceed \$5,400,000. However, there have been instances in which states have realized a large revenue from the estate of some multi-millionaire who lived in another part of the country. The magnificent capitol of Utah at Salt Lake City is pointed out as a monument to this tax, as the cost of this imposing structure is

reputed to have been met largely by the tax that was collected from the estate of the late E. H. Harriman on his large holdings of Union Pacific stock.

However, with the widespread ownership of securities by the growing legion of American investors, it is being recognized that the loss of revenue to any state promises to be less than the actual cost to its citizens of complying with the tax requirements of the other states. This is true, because the states which are the principal homes of the big corporations are now in the reciprocal group.

## Delays Cause Losses

**N**UMEROUS instances might be cited of where estates have suffered heavy losses as the result of their inability to sell securities at the top of the market.

"It will give me a great deal of pleasure to urge my friends in Missouri to get behind the reciprocal measure," a Virginia trust officer wrote several months ago. "I recall a bitter experience I had with some stock of a Missouri corporation that was in an estate we were settling. We were in a 'bear' market and I realized that it would be best to sell the stock as soon as we could. Week after week we waited for the necessary tax waiver. Before the way was cleared to sell the stock had dropped to such an extent that the estate realized \$10,000 less than it would have if we could have sold when we wanted to."

Another trust officer asserts that the most aggravating feature of the non-resident tax feature is the serious delay—as well as the resulting loss to the estate.

"Most trust companies, to emphasize efficient corporate administration, strive their best to wind up an estate as expeditiously as possible," he points out. "How frequently have our hands been tied as the result of some petty tax requirement! Probably the most vexatious cases are those where the tax has been very trivial, but where the loss, due to the inability to sell and deliver securities, has been quite serious. However, there is more objection to the interference with the administration of estates occasioned by the various laws than to the payment of the tax; and, of course, the legatees of the estate must not only pay the taxes, but must stand the expense of determining the amount of the tax."

(Continued on page 1293)

# The Bond Business Will Come Back

By H. G. PARKER

Vice-President, Standard Statistics Company, New York

**Bonds Will Come Into Their Own Again When Credit Situation Straightens Out Is Forecast Based on Past History of Market for Long Term Securities. Trend Toward Corporate Financing Through Stock Issues Explained. Cost of Borrowing Measured.**

**S**INCE the days of the Liberty Loans the growth of the bond business has been tremendous. It reached a peak volume of \$6,500,000,000 in 1927, an increase of just under \$2,000,000,000 over 1924. The total dropped to \$5,500,000,000 in 1928, in spite of the fact that the redemption and maturity money returning to the market for reinvestment in 1928 reached a new peak of \$2,100,000,000, not including the net reduction in government debt amounting to nearly \$700,000,000.

"New money" invested through bonds in 1928 was slightly under the 1924 figure.

All records for total public financing were broken in 1928, in which year the total was over \$11,000,000,000 (not including United States Government refunding). The years 1925 and 1926 showed increases at the rate of 10 per cent but in 1927 the rate of increase was advanced to 50 per cent, with 1928 reporting a further increase of 15 per cent.

Within five years total public financing in the United States has doubled.

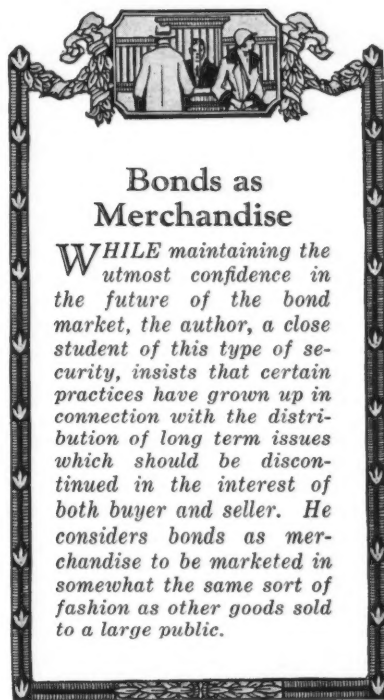
## A Startling Increase

**T**O complete this picture, we must turn to the record of stock sales. A certain bond man the writer knows, wishing to do his best customer a favor, gave him a stock "tip" which made good. Since that date that customer has bought no more bonds. As the bond man is connected with a house which handles bonds only, his income has suffered accordingly.

While \$4,500,000,000 in bonds were being sold in 1924, only \$843,000,000 of stocks were offered to the public. Last year public stock offerings, including rights, fell just short of \$5,000,000,000—truly a startling increase. But that by no means tells the story. January, 1929, stock offerings, including rights, reached \$1,000,000,000. The first quarter total was just short of \$2,000,000,000.

The writer does not care to prophesy what the full year 1929 will show, but if one cared to assume a continuance of that rate, the round \$2,000,000,000 figure is very easy to multiply by four.

During the record breaking year,



## Bonds as Merchandise

**W**HILE maintaining the utmost confidence in the future of the bond market, the author, a close student of this type of security, insists that certain practices have grown up in connection with the distribution of long term issues which should be discontinued in the interest of both buyer and seller. He considers bonds as merchandise to be marketed in somewhat the same sort of fashion as other goods sold to a large public.

1927, and in the early part of 1928, bond sellers handled practically all of the refinancing. It was then only a question of substituting lower coupons for higher ones. Bonds in fairly large quantity were even sold to retire preferred stocks.

Now we see our leading corporations such as United States Steel and Anaconda retiring all, or practically all, of their funded debt through the sale of stock. American Telephone & Telegraph, which has maintained a regular financial policy of alternating each year between bonds and stocks, in effect sold stock, although the technical offering was a convertible bond. They held to the tradition and made the issue bonds, but as the medium was "rights" the bond business got no profit, nor will it be called upon to handle the refinancing.

Temporarily the Steel and Anaconda moves should have a stimulating effect

upon the prices of high grade bonds. Many of these issues are held by institutions, which either are not permitted to buy or would not willingly buy anything but bonds.

When this money is released, if the other competitor of the bond house, "call money"—blood brother to its stock competitor—doesn't tempt it away, it should help the bond business for a time.

## Setting the Pace

**A**S the whole history of our corporate financing shows, we follow styles very largely. When the public were willing to buy bonds, bonds were sold in many cases, when an issue of stock would have been much sounder financing. With our leading corporations setting the pace in selling stock to retire their debts it would be strange if many more corporations did not follow in their footsteps very shortly. Each move of this sort definitely retards the growth of the bond business.

There have been some who have examined the situation very carefully and have come to the conclusion that the day of corporate bond financing is, generally speaking, definitely limited.

Everyone cannot subscribe to this theory. Granting all of the advantages of equity holdings, especially for the individual, who should through this means provide for the rise and fall in the cost of living, and participate in the future growth of the country, there will again come a time when bonds will temporarily provide our chief medium of corporate financing.

Corporate financing, unfortunately for those in the bond selling business, is not geared to the wishes of their customers, but to the needs of the corporations. It is the job of the bond house to dig up the money that the corporations have to have; but the directors of the corporations decide the method of financing, and they have to meet the market conditions.

## When Money Is Needed

**L**ET us work from present conditions and try to determine what is influencing these big corporations to sell stock and retire relatively low interest

coupon bonds. In the case of the United States Steel Company, aside from the saving in interest, there will be a cash benefit because of relief from sinking fund payments, which will, however, be offset to some extent by an increase in taxes. It is a satisfaction to any company to be relieved of funded debt and fixed charges. It has, however, been some time since anyone worried about the ability of United States Steel to meet its charges. United States Steel, with its thousands of stockholders, holds the maintenance of a regular dividend rate as almost as sacred a trust as its interest payments.

Why, then, are its directors taking in some new partners at this time in order to pay off this loan, which carries a fairly low interest rate and is not due for many years? Any business man would decide this question upon the basis of the price he would be able to get for his stock.

Let us confine this discussion to those companies whose history assures all of their securities having a ready sale in all normal times.

For some reason or other more money is needed in the business. The method of financing will be decided upon a cost basis. By cost is meant direct interest against dividend yield. Due allowance must be made for the directors' estimate of future profits. If the directors feel that stock can be sold at a much higher figure at some date in the not too distant future, they will undoubtedly sell an issue of bonds.

They will pay the going rate, whatever it is, insisting upon a redemption clause, of course. No piece of bond financing commits them to a permanent cost. On the other hand, the decision to sell additional stock by an established company will be based almost entirely upon the price at which the stock can be sold. When one voluntarily takes in a new partner, who can add nothing but cash, (which could be obtained in another way), one must believe that he has made a good bargain; one with which he will be satisfied for a long time to come.

### Bonds Will Again Attract

**P**RESENT-DAY stock prices constitute too big and delicate a subject for this article. Some people believe that stock prices are not really high; that they are going to continue to reach higher and still higher levels, without serious interruption. Perhaps this is true, but it is open to question. It is perfectly safe to say that psychology will continue to function, as it always has in the past and that the day will come when, temporarily, the great mass of people will not want to buy or hold stocks.

If and when that does happen the bond business will again come into its own. It will be called upon to raise the funds that industry will need to restore its prosperity or keep it going. The directors of the corporations will be sure that their stocks are selling too cheap. They will therefore prefer to borrow by means of bonds rather than take in new partners.

Institutions and other large investors will be weaned away from the "call money" market. Bonds will again attract them.

The question that naturally arises here is what kind of new issues will bond houses have to offer to them? This is one of the most serious questions that they will have to face.

During the last few years our leading "best names" have refinanced at low rates or, as has been seen, even paid off all of their debts. They are in an exceptionally strong cash position. It would take a pretty hard blow to bring them into the market on any except the most attractive terms.

Nearly every leading industry has excess capacity at present. Utilities and rails will continue to need a certain amount of money, but it is rather difficult to see any large amount of financing that will get "close to the rails" or provide first mortgages on operating utilities.

### Prices Should Go Higher

**U**NDoubtedly bond houses are going to be asked to handle a big volume of "reparation" bonds. Probably this question should not be referred to in this way as the cables from Europe have been extremely careful not to mention the sale of bonds. One recent newspaper report said it was planned to "commercialize this part of the debt in such a way as to remove from it all political character." It may be suspected that this means bond sales and to the American public.

The American members of the committee, which is attempting to draft the plan, are among the ablest financial men of this country. There is very little chance that they will permit excessive sales or sales beyond the bond market's capacity. Their suggestion of an international bank indicates the care that will be taken to avoid the necessity for large volume gold transfers with their attendant difficulties. We will probably be asked to absorb enough bonds to cover payments to the United States Government and perhaps at first considerably in excess of that amount.

If the great bulk of the issues bond houses have to offer are not of the highest quality, serious consideration should be given a continuation of the present policy of making these issues convertible or attaching warrants to them, even though the buyers do not insist upon it, as they do now.

The corporations should give the bondholder the privilege of conversion or purchase at a price which they would be willing to take at the time of the bond sale, but cannot then obtain in the market. If the company is successful individual purchasers will be able to participate in the future growth, if it exceeds the estimate of the corporation's directors. Institutional buyers will perhaps then have more than sufficient appreciation profits to offset the next inevitable decline in the prices of their high grade bonds.

There seems to be the best of rea-

sons for believing that money rates over the long term will work toward lower levels. Bond prices by stages should reach higher and higher peaks.

### Issues Forced on Dealers

**B**EFORE attempting to analyze the future, let us examine the records to see what bond selling organizations have accomplished in the last five years.

They have handled more than 3000 issues of \$1,000,000 or more totaling over \$22,500,000,000 of corporate and foreign dollar issues. More than 14 per cent in number and 10 per cent in dollars of these issues have already been redeemed in their entirety before maturity. The part of the record that is not quite so good is that there have already been defaults in 2 per cent of these issues.

In no case, however, have we a "quick" default record against any house that has offered fifty or more issues. This would seem to justify the belief that the leaders in the bond business had exercised due diligence and care in the selection of their offerings.

While the business was experiencing its boom certain practices, which, in the writer's opinion, were bad, appeared in the machinery of bond distribution. Issues were forced on dealers almost regardless of their inventory position. No option was given a dealer once he got his name on a favorite syndicate list. If he did not like a certain issue or had no market for it in his territory, he had to take it just the same. If he cut his participation too low or too often, he went "off the list." The practice of over-ordering on good issues became a general thing and even then large organizations were often allotted only a few bonds of a desirable issue.

### Terms Were Dictated

**S**YNDICATES competed with each other for business until prices were forced way out of line. At the same time, the average quality of the bonds offered was decreasing. Of seventeen large issues aggregating \$250,000,000 sold just before the break last June, only one was offered at a price yielding more than the average for bonds of similar quality.

It was very evident that the terms were being dictated by the borrower. The dealers were allowed a constantly smaller commission. Many were complaining, even then, that in spite of greatly increased sales their earnings had been lowered.

Sitting on the sidelines, as the writer does, and getting the reactions of both buyers and sellers, he cannot see how these practices can continue. They are the natural result of big organizations, heavy overhead, etc., but, if in the last analysis they are detrimental to the interests of the bond buyer, they will be eliminated.

The speed with which the business has been done is another phase which comes in for criticism. We are living in a

(Continued on page 1290)



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# The Condition of Business

Production, Retail Trade and Corporate Profits During Half-Year Make Excellent Record. Stock Market Declines from 1929 High but Is Still Far Above 1928 Low. Money Rates Continue Tight. Bond Market Dullness Threatens American Export Trade.

**A**MERICAN business has made an excellent record in the first half of the current year, and the almost unprecedented rate of activity in the major industries is being carried into the summer season. Steel mill operations have shown no let-down from the capacity rate, automobile production has broken all former records, and building construction, after a considerable slump early in the year, has apparently recovered to a level not far below last year. Employment is general at high wages, and all indexes of activity make a favorable showing.

Distribution of merchandise seems to have kept pace with production despite the late spring weather, which has retarded trade somewhat. This widespread pace-making of business in most of its branches has been accompanied by very satisfactory earnings, a tabulation of 700 corporation reports for the first quarter of the year making a gain of 25 per cent over 1928. Industrial and trading companies were 39 per cent ahead, railroads 19 per cent, and utilities about 15 per cent ahead.

Money rates continue to be abnormally high, and as yet there has been found no solution to the problem of over-expanded credit. Certainly the banking system does not hold enough gold to warrant any deliberate policy of easy money at this season of the year, in view of the usual seasonal increases which come in the fall and winter and which last year drew down the reserve ratio into the 60 per cent level, which is as low as it should be allowed to go if any reserve strength is to be maintained for emergencies. Some liquidation is taking place in the stock market which, if carried far enough, would result in more normal rates for money, but meanwhile the tight rates prevailing have killed the mortgage and industrial bond market for both domestic and foreign issues, the latter constituting a threat to American export trade that to date does not appear to have received the attention that it deserves.

## Production Sets Record

**A**S the mid-year approaches, the record of production month after month has been an exceedingly good one, a fact which has surprised even the most sanguine observers. Manufacturing activity is widespread, and all of the major industries have shared in this broad movement to some degree at least. Such general indexes of production as those prepared by the Federal Reserve Board and the Standard Statistics Company

are running 8 and 9 per cent respectively ahead of last year.

Blast furnace and rolling mill operations are running at practically the capacity rate, and if continued throughout the year would mean an output of finished steel of 56,000,000 tons. Steel prices, though relatively low, have been firm at slightly above last year's quotations, and earnings of representative companies for the first quarter were double those of the corresponding quarter of 1928. Unfilled orders are said to be sufficient to carry mills well into the summer season, and the outlook is for continued good earnings.

Automobile production records are truly amazing, even though allowance be made for the fact that the increase in number of cars manufactured is somewhat larger than the increase in dollar value, due to the large percentage of new Fords, which are now being turned out at the rate of more than 8000 every day and tend to bring the average price of all cars down. The replacement demand for the old Model T Fords, which are rapidly becoming obsolete, is an important factor. In April there were manufactured in the United States the unprecedented number of 620,700 passenger cars and trucks, and for the first four months the production was 2,072,900 vehicles, compared with 1,378,900 in the corresponding period last year (which was a good normal year), a gain of 50 per cent. Exports of automobiles are still growing rapidly; one-tenth of our passenger car output now goes abroad and one-third of the trucks.

## Trade and the Weather

**B**UILDING construction has not held up to last year's record level, but the volume of contracts awarded in April showed a substantial recovery, and May was also quite satisfactory. Such falling off as has occurred in residential building has been offset by increases in engineering projects and public works. Although the building situation cannot be considered corrected fully until the credit conditions return to normal and mortgage money is again available at reasonable rates, nevertheless the construction industry is giving a good account of itself, and there is still much work to be done, provided current operations and costs are not disturbed by certain labor troubles that have threatened in New York, St. Louis, and elsewhere.

As to just what extent the unseasonable weather this spring has retarded trade it is hard to say, for most of the trade associations and journals in their

published reviews tend to minimize the unfavorable elements and to emphasize the bright spots, while conversations with local wholesalers and retail merchants usually bring plenty of complaint about poor business and lack of profits. Certainly the unusual weather conditions have resulted in considerable irregularity, such as in the textiles, where buying is of a seasonable nature.

Published reports of sales of fifty leading chain store systems and mail-order houses show an average increase of 20 per cent over last year, which would seem to be a satisfactory normal, considering the increase that can be attributed to a larger number of stores. Railroad freight-car loadings are regarded as a fairly reliable barometer of distribution, and they have been running for several weeks at an average of 6 per cent above last year and the highest ever reached, this despite the growing volume of traffic carried by motor trucks.

## Corporate Profits Gain

**R**EGARDLESS of individual complaints, which must always be heard in the light of the universal tendency to shout about troubles and to keep quiet about the money that is being made, it must be admitted that the credit and collections situation gives no cause for alarm nor is the number of commercial failures any larger for business as a whole than must normally be expected. That business has its irregularity cannot be doubted, and it is also true that many people are inclined to use their funds in the stock market instead of paying their trade bills, an inclination which will doubtless increase during the summer because of the very unsatisfactory stock market and the difficulty of taking profits. But with industrial activity so high and employment so general, with no inflation of commodity prices and such a good volume of unfilled orders, there need be no grounds for fearing any severe recession in business.

In May we presented a tabulation of the quarterly earnings for the corporations that had so far reported their earnings for the first quarter, and additional reports published during May do not change the showing to any material extent. As brought down to date, the tabulation includes 325 industrial and trading companies, which increased their net profits for the first quarter from \$322,022,000 in 1928 to \$447,793,000 in 1929, a gain of 39.1 per cent.

Railroad earnings also have been much better than a year ago, the net rail-

way operating income of 183 Class I systems increasing in the quarter from \$217,370,000 to \$259,542,000, or 19 per cent. This was accomplished on an increase in gross revenues of 4.1 per cent against which operating expenses increased only 0.9 per cent. Because of the narrow margin of operating revenue in the railroad business (eighty-three cents out of every dollar received going for operating expenses and taxes), the recent Supreme Court decision of the St. Louis and O'Fallon Railroad vs. the Interstate Commerce Commission should mean much better earnings for the carriers, whose valuation must now be made with a consideration given to present replacement costs.

Earnings of ninety-five electric light, power, water, gas, etc., systems increased during the quarter from \$226,121,000 to \$263,000,000, a gain of 16.3 per cent, and ninety-seven telephone and telegraph systems increased from \$62,468,000 to \$71,688,000, a gain of 14.8 per cent. The grand total for 700 industrial and trading, railroad, public utility, telegraph and telephone companies combined increased from \$827,981,000 to \$1,042,023,000, a gain of 25.9 per cent, which gives the current year an unusually auspicious start.

### Money Problem Unsolved

WE have referred to the problem of overexpanded credit as an obstacle in the road of business progress, without any way being known to get around this blockade except by a slowing down of business, and unfortunately the passage of time has not yet brought a solution.

For those whose thinking processes are not entirely dominated by their own position in the stock market it is now coming to be clearly realized that the huge volume of brokers' loans and bank loans against securities that has been built up in the last five years is not self-liquidating in the sense of the ordinary commercial loan. This is not to infer that the loans are not perfectly safe, if properly margined, and there appears to be not a single instance where a bank has suffered any major loss on call loans in the New York market, in the present century at least. There was only one time that these loans were "frozen" through the closing of the Stock Exchange, which made it impossible to sell the collateral and thereby realize, and that was at the outbreak of the war, from July to December, 1914.

As a counterpart of this new method of financing industry, however, by offering securities to the public instead of borrowing from banks, the advances have been changed from a temporary to a permanent character. This is an advantage to the corporations, and is no doubt incomparably superior to the old method of borrowing from banks, which required keeping proportionate balances, cleaning up periodically, furnishing detailed information about their affairs, etc. When stockholders are offered "rights" to purchase stock below the market price they usually consider that they have received a

"melon," even though they have to go out and borrow money in a ten per cent market to carry a two per cent stock.

These subscriptions to permanent capital should eventually be repaid out of the investors' savings, and when the volume of new offerings runs so far ahead of actual savings as it has been doing, then we have a swelling volume of unliquid credit that can have no other result than to cause abnormally high rates.

No indications of relief in the immediate future are apparent, unless the liquidation going on at the moment in the stock market should run considerably further, but there are a number of definite factors approaching which will tend to make rates firmer. One is the seasonal demand for funds for crop-moving purposes which is now getting underway, and others are the mid-year monetary demands, such as the May 30 holiday requirements, June 1 interest and dividend disbursements, June 15 Treasury operations, July 1 semi-annual transactions, and the July 4 holiday. Interspersed with these are numerous subscriptions of additional stock to be taken up totaling over \$1,000,000,000, only a part of which is for refunding purposes.

### Huge Paper Profits

IF the "man of the street" who is inclined to criticize the Federal reserve authorities and the officers and directors of the member banks for the prevailing tight money would only inform himself more thoroughly as to the meaning of a 70 per cent gold ratio a great deal of misunderstanding would be eliminated. We have pointed out repeatedly that although this is the percentage of gold holdings to the deposit and currency liabilities of the Federal reserve banks, it cannot be taken as a measure of the country's entire banking system, because of the fact that this gold is the ultimate reserve against the currency and deposit liabilities of the 27,000 individual banks scattered throughout the United States, and that as against this total debt the gold reserve is only 6 per cent.

That the rediscount rates should be raised so as to conform with open market rates is now becoming quite generally discussed, but the Federal Reserve Board has been and will always be reluctant to raise rates to curb speculation when by so doing it will at the same time hurt business, except as a last resort. The

board's policy of moderation has been adhered to during the last month, doubtless with the hope that the liquidation in the stock market and the decline in brokers' loans might correct the situation without the need of a rate increase.

Whether this can be accomplished is open to grave doubt, because of the difficulty of paying off these marginal loans even when the stocks are sold. When a person who bought, say 100 shares of a stock for \$100 per share two years ago, paying \$2,500 on account and borrowing \$7,500, now wishes to dispose of the security, he finds the price to be perhaps 50 per cent higher on an average than the cost price (20 per cent for railroads and 90 per cent for utilities). If he sells out the stock he has an equity of \$12,500 which he can then take out of the market, but someone else must buy if he sells, and if purchased on the same basis it would require a margin deposit of \$3,750 and the broker would have to borrow \$11,250, or half again as much as when the former owner carried the stock.

In recent years a large part of the income of American individuals has come out of "the market" and in its place has been left a loan made by some other individual who was willing to take the stock over at the higher price. Unquestionably there is a huge amount of paper profit that has not yet been realized on, and when this is cashed in it will mean still further increases in borrowings by brokers. Theoretically, an advancing market does not necessarily mean higher brokers' loans provided all the customers leave their balances with the brokers, but when people take their profits and withdraw the money from the market, or when new buyers come in on a margin basis, the total of brokers' loans mounts rapidly.

### Stock Market Reaction

IT would be highly interesting to ascertain, if it were possible, the full extent of "purchasing power" which has been spent annually over the past five years and came, not from production and trade, but from the creation of loans against stocks. A corollary to this proposition is that when the market is stationary or declining, as at present, the flow of this purchasing power and its stimulating effect on business is checked; also that when stocks are pur-

(Continued on page 1288)

### Major Financing in May (See page 1289)

| Issue                                  | Amount       | Rate | Due     | Price | Yield     |
|--|--------------|------|---------|-------|-----------|
| Province of Ontario.....               | \$25,000,000 | 5    | 1959    | 100   | 5.00      |
| Allegheny Corp. conv. coll. ....       | 25,000,000   | 5    | 1949    | 100   | 5.00      |
| Richfield Oil Co. 1st A.....           | 25,000,000   | 6    | 1944    | 99    | 6.10      |
| Canadian Natl. Rwy. Co. eq. tr. K..... | 18,000,000   | 5    | 1930-44 | ...   | 5.10-75   |
| Fox Metro. Playhouse, Inc. conv. ....  | 13,000,000   | 6½   | 1932    | 99    | 6.875     |
| Central of Ga. Rwy. Co. C.....         | 10,000,000   | 5    | 1959    | 98¾   | 5.12      |
| Chicago Sanitary District.....         | 9,135,000    | 6    | 1930    | ...   | 5.80      |
| Gulf States Utilities Co. A.....       | 9,000,000    | 5    | 1956    | 94    | 5.72      |
| City of Chicago.....                   | 8,933,000    | 4    | 1931-47 | ...   | 4.25-90   |
| Mo. Pac. RR. Co. eq. tr. F.....        | 8,925,000    | 4½   | 1930-44 | ...   | 4.95-5.75 |
| C. M. St. P. & P. RR. Co. eq. tr. .... | 8,370,000    | 5    | 1930-44 | ...   | 5.05-75   |
| State Line Generating Co. notes.....   | 7,000,000    | 5½   | 1931    | 98¾   | 6.18      |
| Pacific Finance Corp. conv. ....       | 7,000,000    | 5½   | 1944    | 100   | 5.50      |
| Ill. Cent. RR. Co. eq. tr. F.....      | 6,990,000    | 4½   | 1930-44 | ...   | 4.75-90   |
| Prov. of British Columbia.....         | 6,056,000    | 5    | 1954    | 100   | 5.00      |
| Allegheny County, Pa. ....             | 5,100,000    | 4½   | 1930-59 | ...   | 4.10-25   |
| Ches. & Ohio Rwy. Co. eq. tr. ....     | 5,025,000    | 4½   | 1930-44 | ...   | 4.90-5.75 |
| Birmingham Gas Co. 1st.....            | 5,000,000    | 5    | 1959    | 96    | 5.27      |



## **"Why in Thunder should your bank keep an Unprofitable Account, anyway?"**

**P**RESIDENT MURRAY of the First National cocked a quizzical eye at the young man seated opposite him. "All right, my friend, you tell me how to get around it—I'm listening!"

"Unprofitable business is avoided in other fields of activity, Mr. Murray," continued the other. "What is more, there are mighty few unprofitable accounts on the books of the large city banks."

"Bah-h" stormed T. H. Murray, "I thought 'twas something like this you had up your sleeve. I suppose next you'll suggest I put a service charge on all balances under \$100—and hang myself by doing it! Why, take Bill Smith for instance. He's our grocer, you know. Bill must hide his savings in a flour sack, too, because his account never gets over \$30. But let me tell you, Bill is a brother-in-law of Arthur Johnson who owns the garage down the street, and I just couldn't afford to lose Johnson's business."

"You're quite right, sir—in everything you say—except your guess as to what I would suggest for your problem," replied the other. "Incidentally, in reference to a service charge proposal—I quite agree that—although you have many accounts you would be better off without, it's hard to tell what their influence might be on other depositors you must keep."

"However, isn't this a clear way out of the situation?"

And this is the essence of the salesman's story:—  
Your profitable customers will never leave your

bank, if they are getting service that means a lot to them—that they cannot readily obtain elsewhere.

Think of these men for a moment—who they are—what they are like. Isn't every one of them interested in stocks or bonds of some sort?

And their investments mean much to them. You have already had plenty of evidence of that. Provision for old age... protection against the hazards of life... the basis of many an unspoken dream of the future.

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City .....

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# Increasing Sales Prove the great popularity of Willys-Overland line



**A**FTER Willys-Overland sales for the first three months of 1929 had established a record first quarter, April followed as the greatest April in this Company's long history.

Sales of Whippet and Willys-Knight motor cars even surpassed sales for the corresponding month of 1928—which, up to the present year, held the all-time April record.

This impressive sales increase is convincing proof of the enthusiastic public acceptance of the Willys-Overland line—the new Superior Whippet, Fours and Sixes, and the new style Willys-Knight.

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## Strength in Distribution

(Continued from page 1192)

lists in New York would certainly be a criterion for being jealous about who were stockholders, to the extent at least of being able to feel they would not dump their stock at the slightest disturbance or use it in market fluctuations to their own advantage and perhaps the discomfort of the bank.

"It can readily be understood that the fluctuation of just a few points in a bank stock, where conditions were at all unsettled and the stock was widely held, particularly if that fluctuation were down, on a nervous market, might easily cause heavy withdrawals or inspire rumors against which there could be no recourse or defense, which would add to the already sufficient complications of metropolitan banking without justification or reward.

"A friend of mine, the chief stockholder in one of the larger institutions in this part of the State, has recently, in what seemed to me a burst of enthusiasm, run the capital of his institution up to a pretty high figure; that is, high in proportion to the requirement, and was expecting to find a ready market for wide distribution, which he thought would be of great advantage to the bank. However, he had not analyzed the situation properly: he had not taken into consideration the elements of weakness that would be apparent to one more widely posted in the technique of banking and he is now beginning to run into some of the problems above indicated. I am sure that if he had it to do over again, he would not be so lured by the wide distribution and he certainly would not be expecting to find a rising market that before had characterized the stock and had easily been maintained."

The advantages of having the stock of the bank well distributed are so manifest as to need no comment according to a banker in Northern New York who writes:

"I am a believer in having the stock of any bank well distributed, but good judgment should be exercised by bank officials in soliciting purchasers of the stock. If this is done with care, it results in not only securing customers with profitable accounts for the institution, but increases the number of loyal friends and supporters.

"The standing in the community of the party solicited to become a new stockholder is the all important thing to consider. It is of far more importance in my judgment to get ten new stockholders of the young and enterprising type than to have 200 or 300 of those who are simply looking for dividends.

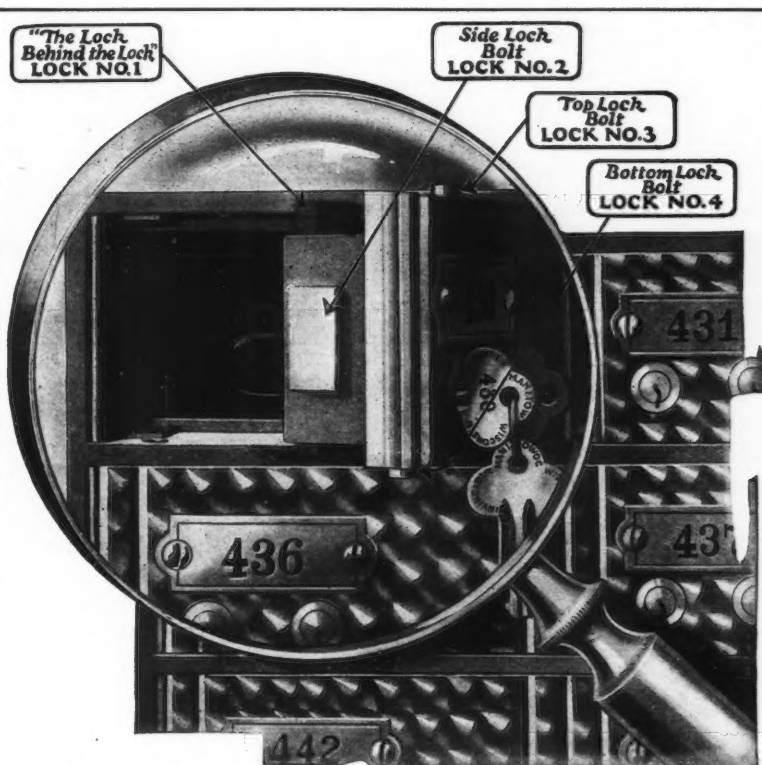
"The advantage of having the stock of the bank well distributed among stockholders representing all phases of community life over and above that of the so-called family bank, where the stock is closely held, is so manifest that it needs no comment.

"As to the possible disadvantage to a bank in a small town of having a large number of stockholders, due to the danger of publication of the private affairs of individuals, I do not believe that there is anything to this argument in any well managed and properly conducted bank. My experience is that the stockholders of the bank who do not happen to be directors know practically nothing about the business relations of other stockholders or other members of the community with the bank; at least if they do get any information along this line it is certainly through some other channel than the bank officials and directors of the institution.

"My observation in regard to the bank stock holdings is that the most serious problem that we have to contend with is the large percentage of the bank's stock that seems to drop into estates, and many banks find themselves paying dividends to estates or to stockholders through inheritance who do not live in the community in which the bank is located and are of no benefit to the institution.

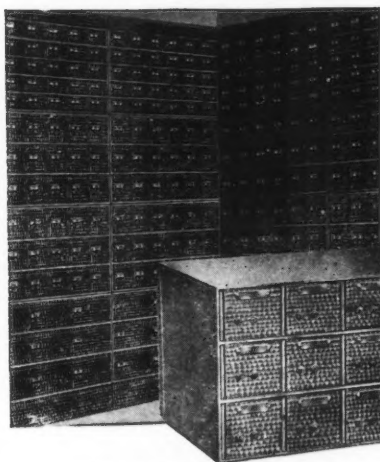
"I wish there might be some way devised whereby upon the death or removal from the city of an active stockholder, the bank might have a right to take back such stock at the book or market value, although I am well aware that any such arrangement is practically impossible."

In contrast, John W. Barton, vice-president of the Metropolitan National Bank of Minneapolis, Minn., does not believe that widely distributed small



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holdings of bank stock can be regarded as good-will assets. He says:

"I am very definitely of the opinion that a large number of stockholders for a country bank is undesirable, and from my observation after twenty-three years of banking experience—seven years of which I was an examiner—I would say that there is a much larger percentage of successful and well managed country banks where the stock is closely held by those responsible for the bank management and policies than where the stock is widely distributed to a long list of local individuals.

"I do not believe that a country bank with its stock widely distributed to individuals owning from one to ten shares is a good-will asset, and from my experience does not insure nearly as competent management as where the stock is very largely owned by the individuals who are active in the management of the bank for certain reasons which I might mention as follows:

"First: In a small bank where the stock is widely distributed, no one individual would have large enough invested interest to make him feel proper responsibility.

"Second: Where the stock of a small bank is distributed widely to a lot of local individuals, the policies are likely to be dictated by those of the stockholders who are borrowers and who are selfishly interested more in how much money they can borrow than in their own investment and the depositors' best interests.

"Third: Unquestionably a bank with a large number of stockholders and a large number of directors in a small community is not looked upon with favor as a place to do business by certain types of business men and individuals, for the reason of the feeling that too much might be known by too many individuals regarding their business affairs.

"Therefore, I have a very decided opinion that a multiplicity of stockholders is not desirable for a country bank."

### Born of Experience

AS many stockholders as possible is favored by F. A. Irish, vice-president of the First National Bank of Fargo, N. D. He said:

"I have always been of the opinion that it is well to have as large a list of stockholders as possible. I base this opinion on what has happened with the railroads, Standard Oil Company, the telephone and telegraph companies and other large corporations who have put their stock on the market during years past and now have large numbers of stockholders scattered all over the country. You never hear of any opposition to these organizations now for the reason that even the small stockholder refers to the company as 'my company,' and this holds good with banks. It is always 'my bank' with a stockholder, no matter how small his holding is. But in the smaller towns I think a small board of directors is advisable. A large board in a small town sometimes works to the detriment of the bank, especially where there is keen competition, for the reason that small town directors usually talk too much. Of course, in large towns, large boards of directors are, in my opinion, desirable."

Grave doubts as to the value of a large number of stockholders as producers of business for the bank were expressed by C. F. Zimmerman, president of the First National Bank of Huntingdon, Pa., who wrote:

"My experience covers a period of almost thirty years, in which time I have been identified with four different country banks. Holders of the shares of the two oldest and strongest of these banks are quite restricted in number. Another of these banks, not so old, has its shares fairly well distributed, while the fourth bank, organized in 1901, had made a county-wide distribution of shares on the theory that this would greatly assist the business of the bank.

"Without wishing to make an unwarranted assumption in this connection, my thought, born of experience, is that unless wide distribution of bank shares is based in the first instance on the promise of patronage from those who buy the shares, there is little or no virtue in it. Investors generally these days buy bank shares principally because of their belief in the business ability of those who manage the bank's affairs.

"During the fourteen years of my official connection with the bank whose shares were

most broadly distributed, very little business on our books could be traced to the fact that the shares were widely held, except in one section of the county where the shares had evidently been placed with a view to obtaining the banking business of the shareholder. Neither was our management successful at any time in rallying these stockholders to our support, for the reason that before purchasing our shares, they had evidently already established such bank connections as seemed to call for their personal allegiance to local banks.

"On the other hand, the writer has observed a number of country banks whose progress has been quite marked where a broad distribution of shares of stock had been made. It is my belief, however, that in such cases the right to subscribe must have been conditional upon a pledge of the patronage of the purchaser, which of course is the essential point in the whole question. In other words, a broad distribution of country bank shares seems likely to accomplish very little except where there is a desire on the part of the investor to support the bank by giving to it the benefit both of his influence and of such banking business as he holds at his command."

Stockholders become good boosters for the bank according to Edgar E. Sensenich, president of the West Coast National Bank of Portland, Ore., who said:

"I have always favored a large stockholders' list, believing that if stockholders are treated fairly so far as income is concerned, that they will be good boosters for their bank. I have never had much experience with small country banks, but it is difficult for me to feel that it would be a disadvantage to such a bank to have a large number of people able to speak of the institution as their bank. Their own business would be tied into the institution more thoroughly and without doubt they would be more likely to influence the business of others."

"A large list of stockholders does not necessarily mean a large board of directors and unless the management of the bank is made up of a bunch of fatters, there is no reason why the stockholder who is not a director should obtain intimate knowledge of such of the individual's business as is conducted through his bank."

### Directors Another Matter

THE great interest taken by stockholders in what they call their own bank is stressed by another banker in Northern New York, who says:

"There is no question in my mind in regard to the advisability of the country bank having a large number of stockholders. It is particularly desirable in small places because of the great interest taken by its stockholders in what they call their own bank. When you mention directors, however, that is another matter. I have heard it so many times that these directors are very likely to know too much about the customers' business. The stockholders, however, are a different proposition. If I were in a country bank I would have just as many of them as I could."

An Ohio banker writes that the JOURNAL's inquiry reached him just at the time his bank had under consideration the question of reducing the par value of its stock. He replied:

"I have no hesitancy in advising you that I am thoroughly in accord with the idea of the multiplicity of stockholders for a country bank."

"In fact, we are discussing at this very moment the advisability of reducing the par value of our stock from \$100 to \$25 per share, the market price on our stock today being \$350 per share. We would be very much pleased to have 1000 stockholders in the place of the present 335 owners of our stock. Although we do not get 100 per cent co-operation from our present stockholders in the way of banking business, we believe that if our stock were scattered over a larger field it would be bound to react favorably in the way of increasing business."

"I do not quite catch the drift as to the argument against multiplicity of stockholders in that the whole community might know too much about an individual's business affairs. We have never been bothered in this way by our stockholders."

## New York City Sales

may make or break a bank's industrial clients. Spot stocks at Bush Terminal meet the difficulties of hand-to-mouth buying in the metropolitan market; reduce distribution costs; and create profitable good will through prompt, efficient delivery of small orders.

Goods in warehouse can be financed by negotiable warehouse receipts—and by certain Bush improvements on that method of borrowing, making credits even more liquid.

The advertisement below appears in several general and business publications for June.

### Cut costs and increase sales

Is there anything more the business man can hope for? What more is there to profit-making than widening the margin between income and outgo? All business plans are variations of effort to pull further apart these two curves — making sales go up faster than costs rise, and making the cost curve drop if you can.

#### Where? and how? to do it

Where can it be done? In metropolitan New York, the largest single concentrated market in the world, with high living standards and a remarkable readiness to buy — a market of special value in itself and with a wonderful plus in its influence on the purchasing of the rest of the United States.

How can it be done? Cut sales costs in New York by forgetting the idea of branch stocks and, instead, letting Bush Distribution Service take all the responsibility for receiving, warehousing and delivering your goods. Bush Distribution Service has the physical equipment, the personnel, the know-how, the experience to handle your goods at lower costs than you could do it yourself. Bush Distribution Service is saving money for scores of manufacturers and sales concerns in the New York zone.

Spot stocks will mean readier sales and surer re-sales for you. Quick, certain deliveries in perfect condition will eliminate cancellations, substitutions for "out of stock," and any amount of friction that kills off sales: instead you will find full confidence and that good will in the trade that every producer longs to have.

Write now for full information. To be sure of a specific answer, outline your special problems. Our booklet, "Distribution Perfected," gives you our standard practice. We will gladly supplement that with special suggestions adapted to your needs.

### BUSH DISTRIBUTION SERVICE

Bush Terminal Company

100 Broad Street

New York, N. Y.

Please mention this issue of the American Bankers' Association Journal

## "Information, please!"



**I**NFORMATION operators are called more than one million times a day. More than three thousand specially trained operators are needed in the Bell System to furnish this important service. In the larger cities additions to and revisions in the subscriber listings are printed each night and distributed to the operators. One of the important functions of this service is to supply the numbers of the additional telephones which now are being connected to the System at the rate of 800,000 a year.

### *Reasons Why Careful Investors Choose American Telephone and Telegraph Company Stock*

The American Telephone and Telegraph Company, with its predecessors, have paid dividends regularly for forty-nine years. The Bell System is expending more than five hundred million dollars a year for plant and equipment. Through a far-sighted management, the Bell System maintains telephone service at the lowest cost consistent with financial safety.

More than 450,000 stockholders own American Telephone and Telegraph Company shares, which are so widely distributed that no one stockholder holds as much as 1% of the total capital stock.

*May we send you a copy of our booklet,  
"Some Financial Facts"?*

## BELL TELEPHONE SECURITIES CO. Inc.

195 Broadway



New York City

A bank is well served by a large number of stockholders in the opinion of Travis Oliver, president of the Central Savings Bank and Trust Company of Monroe, La., who writes:

"My opinion is that a country bank is better served by a well distributed and large amount of stockholders, and I do not think that the number of stockholders has any possible bearing on the knowledge of individual business affairs of customers of the bank.

"It has been my experience that the majority of stockholders know nothing whatever about banking, and the management is usually confined to a small number of directors. I do not advocate a large board of directors, and I do not believe in a well managed bank the individual affairs of customers are ever made known to stockholders at random."

### Special Privileges

**T**HERE is an advantage in the wide distribution of stock during the organization of a country bank which does not seem to exist after the institution begins operations in the opinion of S. J. High, president of the Peoples Bank and Trust Company of Tupelo, Mississippi, who said:

"I think when a bank is being organized there is some advantage in having a large number of stockholders, in order to help build good will. Each stockholder when a bank is first organized feels the obligation and responsibility as a stockholder, and constitutes himself a personal solicitor for business for his bank, but after the bank is established and on a good earning basis the stockholders do not feel the need of their personal efforts and begin to let up in their personal work, and then I think it is an advantage not to have the stock so widely scattered.

"In a country bank where stock is widely distributed in small amounts, it often gets in the hands of persons who feel that their being stockholders in the bank entitles them to accommodations and privileges that the bank cannot extend, and this sometimes has a bad effect."

**A** VERY definite stand against a multiplicity of stockholders is taken by Burton M. Smith, president Bank of North Lake, North Lake, Wis., who writes:

"Is a multiplicity of stockholders desirable for a country bank? I would say no, I should prefer fewer stockholders with enough stock to be interested. The few—fifteen to twenty—should be picked men, representative in every way.

"There is a fear among business men that their affairs are apt to become common knowledge. The main qualification for a stockholder and naturally then a director is to keep the bank affairs in the bank, thereby observing the strictest ethics of banking. This condition would not obtain with a multiplicity of stockholders."

### Human Nature a Factor

**M.** PLIN BEEBE, president of the M. Bank of Ipswich, Ipswich, S. D., in a short statement of his views comes to the conclusion that multiplicity of stockholders is not good business. He said:

"Theoretically a multiplicity of stockholders in a country bank is desirable. From a practical point of view it is far from it. Human nature is the same the world over. As a general rule the smaller the community the less are the activities of men who become stockholders. Many cannot see why they were not elected directors. Stockholders generally have an idea that the other stockholders can obtain information from the bank as to their business while the public thinks the stockholders have the same right. Further, a stockholder assumes he is entitled to certain privileges and lines of credit not accorded to other customers. Multiply this by say fifty stockholders and the managing officers are in an embarrassing position. Where a bank has a few stockholders matters of policy can be discussed with less danger of leakage and responsibility for safety and welfare of bank can be definitely placed.

What is everybody's business is nobody's business and you do not have the individual responsibility to the public. Any gain of business by reason of a large number of stockholders is more than offset by the above."

E. A. Onthank, president of the Safety Fund National Bank, Fitchburg, Mass., holds to the opinion that which is the better policy depends upon many circumstances, but principally upon those who are in charge of bank. Other things being equal either policy may be adopted, if the management of the bank clearly sees its course and the means to achieve it under the policy it elects.

## Credit History Repeats Itself

(Continued from page 1237)

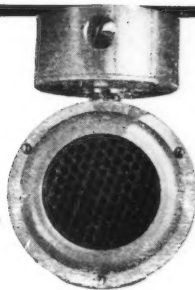
The Federal reserve banks, as the custodians of the ultimate banking reserves of the nation, as the agencies of last resort in the matter of rediscounts, and as the media through which so large and important a part of the currency is issued, must always be kept in an absolutely sound and strong position. Their strength must be measured by the liquidity and intrinsic value of their invested assets (which consist largely of rediscounts for member banks), as well as the proportion of gold reserve to deposit and circulation liabilities. A gold reserve is essential to a sound financial system, and the percentage of reserve should normally be considerably higher than the minimum required by law, in order to provide ample margin for meeting unusually large seasonal requirements and unexpected emergencies. Also it is imperative that the earning assets of the Federal reserve banks be of the self-liquidating character which would admit of restoration, within a reasonable time, of depleted reserves caused by such seasonal demands or emergencies.

## Concerns Every Section

THIS historical and fundamental background paves the way for consideration of present-day conditions. Everyone is more or less familiar with the speculative fever that has been sweeping over this country in recent months, which has already absorbed a tremendous amount of banking credit, and, in turn, has created in some districts a heavy demand for Federal reserve funds. Early in February of this year, the Federal Reserve Board deemed the situation of such importance that it issued a public statement, calling attention to the volume of speculative credit and the importance of preventing the seepage of Federal Reserve funds into uses not contemplated by the Federal Reserve Act. A copy of this statement was forwarded to all member banks in the Tenth Federal Reserve District, but, since I feel that the present situation is somewhat similar to that of 1919 and 1920, I am going to quote a considerable portion of this announcement of the Federal Reserve Board.

"The firming tendencies of the money market which have been in evidence since the beginning of the year—contrary to the usual trend at this season—make it incumbent

# A.D.T. PHONETALARM



This shows how the sensitive sound detector is installed on the ceiling of the vault. It is equally suitable for new or existing vaults.

## Provides positive vault protection

A. D. T. Phonetalarm provides positive protection because it immediately detects any hammering, drilling, burning or other disturbances on the surface of or within the vault.

Sensitive sound detectors on the ceiling of the vault are immediately actuated, thereby causing an alarm to be sounded by the A. D. T. vault alarm. The action is positive—the protection is sure.

A. D. T. Phonetalarm is an Underwriters' Approved Grade "A" System. Available for local operation or for operation through one of 115 A. D. T. Central Stations, located throughout the country.

Write for complete information.

Controlled Companies of

American District Telegraph Co.  
183 Varick St., New York, N. Y.



This attractive housing, designed to harmonize with the architectural scheme, contains the alarm mechanism.

## A GREAT REGIONAL BANK CENTERING AT LOS ANGELES

**CONSOLIDATION** of  
Los Angeles-First National Trust & Savings Bank  
and Security Trust & Savings Bank has united two of  
the oldest and largest banks of Southern California.

### SECURITY-FIRST NATIONAL BANK OF LOS ANGELES

Resources above \$600,000,000. Capital, Surplus and  
Undivided Profits above \$50,000,000. Branches  
covering the area from Fresno and San Luis Obispo  
southward to Imperial Valley. Twenty-four hour  
transit service with great saving of time in collections  
and remittances. Banking connections all over the  
United States and correspondents around the World.

Security-First National Bank offers unequalled fa-  
cilities, both for customers of other banks, coming to  
Southern California; and to institutions, individuals  
and firms needing a Southern California connection.

**HENRY M. ROBINSON**  
*Chairman of the Board of  
Directors*



**J. F. SARTORI**  
*President and Chairman of  
the Executive Committee*

**SECURITY-FIRST NATIONAL COMPANY**  
IDENTICAL IN OWNERSHIP WITH  
**SECURITY-FIRST NATIONAL  
BANK OF LOS ANGELES**

**CAPITAL AND SURPLUS \$6,000,000**

**THIS** investment subsidiary, operating through the extensive  
Branch system of the bank, has unusually good distribution fa-  
cilities, in a region where the bond-buying market is active. Security-  
First National Company is prepared to aid in corporate financing  
by underwriting or participating in the under-writing of high  
quality security issues.

upon the Federal reserve banks to give constant and close attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

"The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

"The resources of the Federal Reserve System are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

"The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal Reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal Reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

"The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal Reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal Reserve credit. When such is the case the Federal Reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country."

The tremendous volume of speculative credit has already produced some strain on the banking resources of the country, which has reflected itself in advances of from 1 to 2 per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future. It is believed, however, that with the co-operation of the majority of the member banks in the Federal Reserve System, the condition is gradually being improved. We have had the fullest co-operation from practically all of the banks in this district, but notwithstanding their desire to cooperate, it has been impossible for banks to entirely free themselves of speculative loans, and some further action may be necessary before the unsatisfactory conditions have been entirely corrected.

**W**HILE, as has been said many times, we do not consider it within our province to attempt to regulate speculation, the Federal Reserve Act reposes in the Federal Reserve Board a heavy responsibility not to allow the funds of the reserve banks to be borrowed for the purpose of financing or carrying securities. It should be borne in mind that the Federal Reserve banks do not make any loans to brokers and that we are prohibited by law from making loans to member banks based upon stocks and bonds (other than United States Government securities); but proceeds of loans on eligible paper may have been used by our member banks in making speculative loans. This is what is meant by "Use of Federal Reserve funds for speculative credit," or "Use of Reserve credit in speculation."

Since the Act provides that our funds are not to be used in the financing or carrying of securities, there is no question of the authority of the reserve banks to limit the amount of advances to member banks which thus abuse their membership privilege and further use of this authority has been under consideration. Just how far it may be necessary to go in this direction is undetermined at this time, but whatever steps are taken by the Federal Reserve Board and the Federal Reserve banks will be in the interest of conserving funds for agricultural and commercial uses, and however bitter the medicine may be, it will be for the ultimate good of the country as a whole.

We have no quarrel with speculation—it may or may not be a good thing—but the problem we have been called upon to solve is the use of reserve credit in speculation, directly or indirectly.

The situation was recently summarized by an authority as follows:

"Reserve credit is maintained to be used only in emergencies, to carry seasonal loans, etc. When banks employ it permanently, it is bad banking, and when they employ it permanently to lend on call, it is both bad and unethical banking. Therefore, the Reserve Board, as a permanent policy, which it is hoped will become a tradition, will refuse to permit such use of reserve credit."

Up to this point, I have tried to give a general bird's-eye-view of the Federal Reserve System and its policies, powers and principles. It is possible, however, that some will be interested in operations which more intimately affect banks of this district and I will try to tell you something of the workings of the Federal Reserve Bank of Kansas City. Many bankers will be surprised to learn of the magnitude of our operations.

### Eligible Paper

FOR example, we handled last year in our transit department nearly 70,000,000 checks for an aggregate value of more than \$11,500,000,000. We received and counted approximately 132,000,000 separate pieces of currency and coin, having a value of nearly \$300,000,000. We handled 3,796,115 pieces of mail matter and the value of registered shipments contained therein was \$1,181,863,424.18. Transfers of funds for member banks aggregated 139,879 in number, or an average of approximately 466 transfers each day, the aggregate amount for the year being \$6,501,914,844.82. Notes discounted or rediscounted for member banks during the year aggregated \$1,359,337,422.93.

Bankers who are interested in rediscounting should bear in mind that eligible paper consists only of notes, drafts or bills of exchange, "the proceeds of which have been used or are to be used in the first instance in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in bonds or notes of the United States." (The term "goods" as used in the Board's Regulations includes goods, wares, merchandise, or agricultural products, including livestock.) It is

# Efficiency

A bank organization that can handle 250,000 items daily must be efficient. The constant attention in receiving and dispatching this great volume of business by transit and collection departments in continuous day-and-night operation means much to our correspondents in converting "float" into available cash.

Few banks can equal and none surpass the service which this institution offers. Efficiency is not merely a slogan with us; it is a business necessity.

...THE...

## PHILADELPHIA NATIONAL BANK

INCORPORATED 1803

PHILADELPHIA, PA.

Capital and Surplus . . . . . \$50,000,000

# If Green, the teller, took \$25,000 . . .

(A comparison of two methods of protecting a bank against dishonesty)

## 1. With a Schedule Fidelity Bond

Where individuals and amounts of protection for each are stipulated.

|                           |               |
|---------------------------|---------------|
| Hansen, Cashier . . .     | \$25,000 Bond |
| Brown, Asst. Cashier . .  | 15,000 "      |
| Johnson, Teller . . .     | 20,000 "      |
| Green, Teller . . . .     | 10,000 "      |
| Thomas, Bookkeeper . .    | 5,000 "       |
| Smith, Janitor . . . .    | 2,000 "       |
| Total Protection \$77,000 |               |

If Green takes \$25,000, the bank's net loss is \$15,000. If Thomas gets away with \$18,000, the bank is out \$13,000. If Brown steals \$20,000, the bank loses \$5,000.

Although the bank is carrying bonds totaling \$77,000 in amount, its maximum protection on a single theft is limited to the amount of the bond carried on the employee responsible for the loss.

## 2. With an F&D Bankers Blanket Bond

Where all employees are covered up to the full amount of the bond.

*Same employees as in Case 1—  
and same conditions. Bank carries  
an F&D Blanket Bond in the  
amount of \$25,000.*

If Green takes \$25,000, the loss is fully covered. If Thomas gets away with \$18,000—no loss. If Brown, the assistant cashier, absconds with \$20,000—no loss.

No matter which employee turns dishonest—the loss up to \$25,000 is covered.

Furthermore, the bank is also protected against burglary, holdup, loss or destruction of money or securities, and many other hazards, to the extent of \$25,000.

**T**HERE can be no doubt in anyone's mind as to which of these methods affords the most complete protection. If you are not now carrying a Bankers Blanket Bond and would like full information concerning this desirable form of protection, ask the F&D representative in your community to tell you the whole story. Or write us direct.

**FIDELITY AND DEPOSIT  
COMPANY OF MARYLAND**  
Baltimore



Fidelity and Surety Bonds—Burglary and Plate Glass Insurance  
Representatives Everywhere

An American company providing the best possible protection for American banks

further provided in the Regulations of the Federal Reserve Board, made pursuant to the provisions of the Act, that where the proceeds of a loan have been or are to be advanced or loaned to some other borrower or used for permanent or fixed investments of any kind, such as land, buildings or machinery, or for any other capital purpose, or for investments of purely speculative character, such paper is ineligible for rediscount.

In this connection, it should be borne in mind that all member banks have perfectly good paper which is not eligible for rediscount at the Federal Reserve banks; likewise, they may have eligible paper which is not desirable, since it does not follow that because a loan may be technically eligible that it is intrinsically good.

I shall not attempt to describe all the details of rediscounting, although the procedure is much simpler than some of our members seem to think, but I want to touch upon one requirement which I feel should be observed by all banks, regardless of whether they contemplate rediscounting, and that is the requirement of financial statements. When we first started our campaign of education some nine or ten years ago, there was much complaint and some banks even felt that to ask customers to furnish financial statements was an insult. A reversal of this attitude is now noted and many of our banks have written us that while they formerly viewed our efforts as unwarranted interference with their credit methods, they have now come to the realization that their credit files are in better condition than ever before and that they have learned things about their customers that were heretofore unknown to them.

To illustrate: A member banker in Missouri had been making unsecured loans to a certain customer for a number of years, without having a financial statement. The banker knew this customer had made some losses in his cattle feeding operations and that he was somewhat overextended, but thought the customer owned a half section of land, unencumbered, worth more than \$100 per acre. Upon requiring a financial statement, however, preparatory to rediscounting, he learned that title to all the real estate stood in the name of the customer's wife. Needless to say he took immediate steps to obtain security or otherwise better his position. In another case, a borrower was using two banks, twenty-five or thirty miles apart, each thinking its loan was the borrower's only current indebtedness. This condition was discovered when both banks offered the paper to us for rediscount, whereupon we notified them of the duplicate borrowing and they got busy in an effort to save a loss.

Five years ago, a Roanoke bank experimented with the idea of subscribing to the JOURNAL for its employees. This bank has just increased its order to 43 copies. 1189 other banks are following its example.

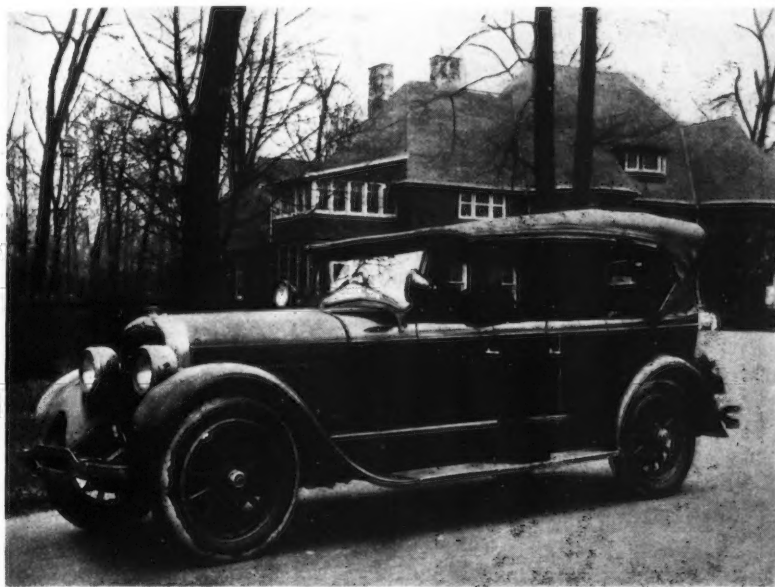
## Radio Blocks the Getaway

(Continued from page 1198)

Not many months ago a coal company office was held up by a lone bandit. While he held all the employees in sight at bay, another employee in an adjoining room called the police. Ninety seconds later the police had reached the scene, but the bandit was gone. The police car began circling the block, and

with receiving sets and loud speakers. This work is under way at the radio station's workrooms where all sets are built.

Spurred on by the results obtained in Detroit, the police of other cities have taken up this system. Lieutenant Kenneth Cox, under whose direction the De-



Radio directed cruiser car used by the Detroit police

the bandit was sighted running down an alley near the office robbed.

The fleeing man was ordered to halt. He disregarded the command and attempted to clamber over a fence. The officers opened fire. He fell lifeless. In his pockets were found a gun and the money for which he had paid with his life.

### Caught Bad Check Passer

SEVERAL weeks ago an order was radioed to a cruising car to get a bad-check passer operating along a business street. He had victimized several merchants. Three minutes after the order had been given the patrolmen had reached the scene, obtained a description of the man and had arrested him in a store farther down the street.

A burglar was ransacking the home of a Detroit resident recently when a citizen living nearby noticed the beams of a flashlight playing about the house and called the police. Thirty seconds later officers had reached the scene and the prowler was arrested as he slipped from the house with a bundle of silverware and other valuables beneath an arm.

The record of the last year has caused Police Commissioner William P. Rutledge, a pioneer and prophet in the use of radio by the police, to order the equipping of thirty-two additional cars

troit police station and cruisers made their record, has been given a leave of absence to go to Chicago and perfect the system there. The Chicago police already have forty cars in operation.

### Seconds Are Precious

THE Chicago police as yet do not have their own radio station, as does Detroit. The Chicago department has been broadcasting orders from WGN, the Chicago Tribune station. This method, while it speeded up police work, was not satisfactory because every radio set of the city could be tuned in on the station, whereas in Detroit, where the station is operated on a low wave length, few ordinary commercial sets can be tuned in on the police station.

The Chicago police now have been offered the use of NDS, the naval reserve station, which is on a low wave length. Licenses to operate their own stations and plan to equip cars with receiving sets have been granted the Buffalo, N. Y., Berkeley, Cal., and the Highland Park, Mich., police departments. Other cities are expected to follow their example. Even England's famous Scotland Yard has sent a query to Detroit concerning the system. Several other cities, including New York and Dallas, use radio to a limited degree in their police work, but do not broadcast to radio-equipped cars.



## You never know

*Under which hat comes the shooting bandit?*

You never know what hour?—what day?—what circumstances? But—**ALWAYS**—the surprise element will be to your disadvantage—and danger!

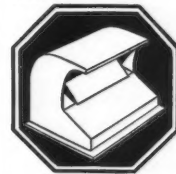
Twenty shot last month by bandits, bandits who are choosing busy banks and stores, the better to make their escape.

Prevent Shooting with

## FEDERAL GAS

Largest metropolitan banks, famous popular hotels, leading industrials (send for lists) have already installed this modern scientific protection—*Because it prevents shooting.* Its effect is instantaneous—*No one* has ever been able to aim and fire a gun against it.

Federal Gas Bandit Protection has a perfect score—frustrated every bank hold-up, captured every bandit, where used. Effective, yet absolutely harmless.



*The Federal patented release cannot be discharged accidentally.*

**Do not wait until the gunman marks your bank—**

—Fill out the coupon today—

**FEDERAL LABORATORIES, Inc.**  
1631 Liberty Avenue,  
Pittsburgh, Pa.

(Representatives in the Principal Cities)

Gentlemen:

Please send us details about Federal Gas Bandit Protection for Banks.

Name .....

Title .....

Bank .....

Address .....

City .....

State .....

(Federal Gas is sold only on the side of law enforcement).

—and for the new Aldine Trust Co.

## S & G Locks Throughout

The men responsible for the new building of the Aldine Trust Company, Philadelphia, investigated, compared, and chose S&G Time, Combination and Secret Key Changing Sealed Key Safe Deposit Locks.

Banks throughout the country are buying their vault equipment with increasing care. And the more carefully they buy, the more certain are they to decide on Sargent & Greenleaf Locks.

*For the Aldine Trust Company building, the architects are Thalheimer & Weitz, Samuel P. Yeo is the Vault Engineer.*

**Sargent &  
Greenleaf Inc.**  
ROCHESTER NEW YORK

### Clip and Mail Coupon

Sargent & Greenleaf Inc.  
Rochester, N. Y.

Please send me complete information on S&G Locks.

Name.....

Bank.....

Address.....

City & State.....



Commissioner Rutledge and other police officials predict the coming of the time when the police departments of the entire country will be linked together in a radio network. Then, as emergencies arise, an entire metropolitan area, a whole state, several states, or the entire nation can be aroused in a few seconds.

Three state police departments already have adopted radio for police work. They are those of Pennsylvania, Massachusetts and Michigan. The Pennsylvania State Police use the radio to communicate between the various posts. The other two states plan like installations and expect county and municipal law enforcing units to join the network.

Seconds are precious to the criminal. A few more or a few less mean either capture or escape. The advantage given the crook by the advent of good roads and the automobile is being reduced as the police use of radio spreads across the nation.

It is easy to get men to work together for their common self-interests, but a higher standard of morality demands co-operation for the benefit of a far wider constituency. Existing conditions in the world's money markets and the outlook for world prices present an occasion for just such disinterested international effort on the part of the leading central banks.—The Midland Bank Limited of London.

## How the Budget Came to Santo Domingo

(Continued from page 1202)

General Dawes took pains to point out, with institution of such methods of economy as would enable the Dominican people at the earliest possible date to throw off "the last vestige of a restriction upon their unimpaired national sovereignty," namely, American control of customs.

### Habits of Four Centuries

THE Dominicans are a freedom-loving people, as has been shown by four centuries of continued striving against Spanish, French, and Haitian governmental rule and American military rule. It is this characteristic that the report of the American experts sought to appeal.

"Until the governmental debt in its present form is extinguished," the Commission reported, "an unwelcome control of customs must be endured by the Republic. Every Dominican governmental official, in striving for economy, is working for complete freedom of his country from exterior control, and every true patriot in this or any other country will applaud him in the effort."

The progress shown in the first month since the Commission presented its plan would seem to afford abundant evidence of response to this appeal. The habits of four centuries based on the theory that "to the victor belong the spoils," not only of jobs but of treasury funds, are not, however, cast aside in a day nor at the behest of a group of American experts demonstrating a new line of procedure in Latin-American friendliness.

The Commission, accordingly, in closing its report and leaving the most modern system of government financial control to those who rule in the oldest city of the Western Hemisphere, used these words:

"The Commission fully realizes the difficulties which confront the Republic in its effort to reach this desirable consummation, but its determination to master the situation is evident to our minds. A 'will to win' bespeaks victory."

We may seek to meet the unlimited demands of excited speculators at low rates of interest, or we may stop the unsound tendencies now, cease the excessive diversion of bank credit into capital uses and speculative uses, and then undertake to supply the legitimate needs of business for an indefinite period at rates of interest which correspond to the actual facts of the capital situation—which rates, I venture to suggest, will be substantially higher than the artificially low rates of recent years, though I trust reasonably lower than the rates now prevailing in the United States.—Benjamin M. Anderson, economist, the Chase National Bank of New York.

## The New Currency Issue

(Continued from page 1210)

the limits of our immediate ability to meet them, and the process of the turn-over thus made successful. Not only must each bank be patient in its demands but we ask them to preach the doctrine of patience to their customers.

Similarly the problem of the Federal Reserve banks is one of cooperation on the one hand with member banks and other banking institutions, so as to meet their demands for currency as fully and rapidly as facilities will permit, and on the other hand to cooperate with the Treasury so that these demands may be kept within the necessary limitations which the Treasury must impose. I bespeak for them sympathetic cooperation in this difficult period.

The national banking institution presents a special problem, in that all banks are asked to keep in circulation old-size national bank currency over a somewhat prolonged period of a number of months, thus meeting fully the public requirement for currency. In return for this cooperation, on which we confidently rely, I can assure the banks that the Treasury will make every endeavor not only to hasten production and issue of national bank currency in reduced size at the earliest possible date, but also in sufficient volume to accomplish its complete substitution for the old-size currency just as rapidly as the redemption facilities will permit.

### Ends Highly Desirable

IN order that all of these problems may be successfully solved, the Treasury is planning certain publicity features. We regard it as important that at the very outset of this turn-over period—a period without precedent in the history of the country—the public should be thoroughly acquainted with the essential features of the new currency, so that the passing of counterfeits will be impossible. To this end it is planned to place on exhibition in all banking institutions which desire to participate, specimen sets of the lower denominations, supplied at the face value purely for exhibition purposes in advance of the actual issue date. This advance distribution of specimens will be strictly limited to banking institutions. Full details as to this distribution of specimen sets will in due course be furnished by the Federal Reserve banks in the respective districts through whom alone such distribution will be made. This is one of several features of this kind which the department is planning to inaugurate for the purpose of acquainting the public in advance with the essential features of the new currency.

An appeal to the public for a sympathetic appreciation of the gigantic problems which have confronted the Treasury in this program and for their cooperation during the turn-over period is in order. It is a period of great difficulty such as has never before been faced in



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currency matters. If the public will but realize that the Treasury is making every endeavor to accomplish a complete turn-over as rapidly as possible they will be content for a certain period before the actual issue to accept the old-size currency in a condition of wear which would ordinarily require its redemption, knowing that this is a necessary incident of the program, and secondly, they will cheerfully acquiesce to the necessity of using two sizes of currency for a limited period, knowing that thereafter the country will go forward with the reduced-size bills which will be far superior in beauty of design, simplicity, protective features, wearing qualities, and general convenience.

In addition there will be a very large

annual saving in cost of production, as roughly, we will print twelve small notes for the cost of eight old-size; and at the same time avoid a large expansion of plant at the Bureau of Engraving and Printing within the next few years which would otherwise have been necessary. These ends are so highly desirable that the temporary inconvenience should not, and I am sure will not, be magnified and are certain in the end to be speedily forgotten.

Since Mr. Bond's article was written, Secretary of the Treasury, Mellon has announced that the issue of the new currency would begin on July 10 through the Federal Reserve banks and branches to the commercial banks of their respective districts.

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## New Foundations for the Tariff

*(Continued from page 1213)*

basis of the bill remains foreign value, but a provision is inserted requesting the President to direct a study of the subject of a new valuation basis for tariff purposes, and submit a report to Congress.

The new measure, very significantly, places the burden of establishing proof of foreign, or export, value upon the importer. It extends the definition of "United States value," which can be used as the basis for imposing duties when foreign values cannot be obtained. It

also proposes to make final the decision of the appraiser whether it is possible to ascertain foreign value, subject only to appeal to the Secretary of the Treasury and without appeal to the courts. Furthermore, in ascertaining United States value, which is the price at which a similar article is sold in this country, with certain deductions, the appraiser may compare the imported commodity with either an imported or domestic article. This is a close approach to "American valuation" which was the

basis of the House bill in 1922 but which was rejected by the Senate in the Fordney-McCumber act.

Another change of first importance is the rewriting of the flexible tariff so as to provide that "differences in competitive conditions" instead of merely "differences in costs of production" may be the basis of changes in rates by the President after investigations by the Tariff Commission. Also, the Commission would be reorganized with seven members appointed without regard to political affiliations instead of six members, no more than three of whom shall belong to the same political party, as the section now reads. Final adoption of this revision would legislate the present Tariff Commissioners out of office.

## French Gold and American Money Rates

*(Continued from page 1226)*

these instruments. On August 8, 1928, the volume of acceptances owned by Federal Reserve banks had been reduced to \$162,000,000, but when in the fall of 1928 the Bank of France ceased to be a buyer, Federal Reserve banks unwillingly supported the acceptance market, and on November 14, 1928, it will be observed, held \$475,000,000 of acceptances in their portfolio. After January 1, 1929, the Federal Reserve banks, taking advantage of the seasonal movements of money, stopped buying acceptances and allowed the acceptance market to take its own course, hence a rapid rise in acceptance rates followed. The acceptance market for the first time in its history is now standing on its own feet, unaided by artificial control.

The American money market is still passing through a difficult period. Many months will elapse probably before liquidation is completed and member bank rediscounts at Federal Reserve banks are reduced to the point desired. It is believed, however, that fundamental conditions are sound, that the situation is in strong hands and is being properly handled in an orderly way.

## Bank Runs

*(Continued from page 1222)*

remained 123 closures, or 25.8 per cent of the total.

Another type of failure which does not belong in this tabulation is that which involves "chain banks," that is, those institutions under single ownership and domination. It goes without saying that when the parent or any affiliated member of such an organization suspends, the others may be expected to follow, as much because of their own condition as from any outside influence. Deducting thirty-nine such closures, there remains a final net figure of those banks whose suspensions might reasonably be said to have been caused largely by sudden loss of public confidence. The number of such failures is eighty-four, or 17.6 per cent of the total.

This estimate might well be reduced still more by an investigation of the affairs of each bank prior to its closure. In a few cases this was done, and dangerous internal conditions were found which at once raised a doubt as to the ability of these banks to have remained open even with the support of their depositors.

Complete information was not available in a sufficient number of cases to exhaust these possibilities, but the foregoing analysis should be sufficient to indicate that the importance of runs has been greatly exaggerated and that loss of public confidence of itself cannot be advanced as a leading cause of the majority of bank failures. Furthermore, a solvent bank which has been forced by a run to close its doors should liquidate sufficient of its assets to pay its liabilities substantially in full. Such a conclusion is confirmed by the extent to which failed banks, as a class, have paid in full.

### There Must Be a Reason

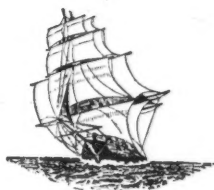
IT is generally agreed among supervising authorities, bankers and receivers, that the mere act of closing a bank will at once cause approximately 20 per cent depreciation in the collectible value of its assets. This is because there are usually numerous borrowers who will attempt to "beat" a receiver and the costs of collecting under receivership are greater than in a going bank, on account of the larger amount of litigation.

For a group of sixty-two closed banks whose affairs had been wound up and that had been discharged from receivership, the average dividend to depositors was 55.5 per cent. This included nine trusts which paid 100 per cent and one which paid 104 per cent. It is apparent, therefore, that the average of the remaining fifty-two was considerably lower than this.

Of 157 closed banks still in course of liquidation, the average of the estimated total dividends, including those already paid, was 48.8 per cent. This included only seventeen banks in which it was expected that the total payments would run over 80 per cent. The combined average of estimated final dividends and actual final dividends was 50.7 per cent. This is the maximum average likely to be paid by these 219 failed banks.

Naturally if these failed banks had rather consistently paid out as much as 80 per cent to their depositors the wisdom of their closing might now be seriously open to question. Such successful liquidation would have indicated a quality of assets rendering them practically solvent, and closure could be presumed to have occurred primarily because of the external factors beyond the bank's control. In such an event there would have been good argument for consolidation with a competing institution or even in some cases for further extensions of credit by a city or reserve bank. But with a few exceptions this has not proved to be the case.

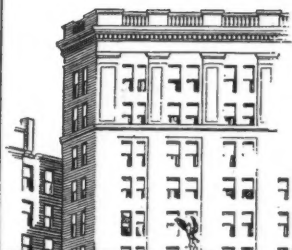
## These FACTS tell the STORY



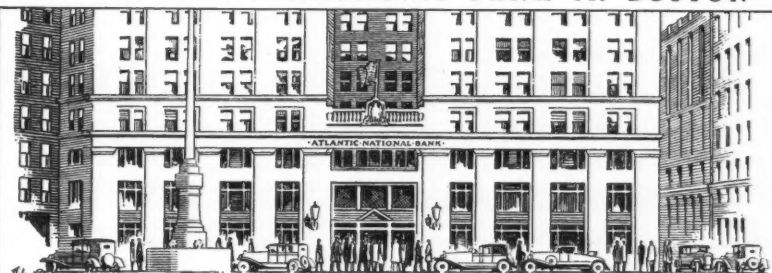
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## ATLANTIC NATIONAL BANK OF BOSTON



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## Banking's Place in Prosperity

(Continued from page 1221)

banked state of Missouri furnished a notable instance of this desirable tendency.

There is also evidence of not a little concentration in banking where weak and excessively numerous banks are not in question, where the initiative is taken by strong banks which acquire prosperous neighbors in order to become still larger and, at times also, in order to secure the services of experienced and capable officers. Concentration of this

general character is limited by legal restrictions upon the operation of branches by banks, and one of the notable developments of the period under review has been the settlement, at least for the time being, of the vexing and contentious controversy which had arisen over this form of banking organization.

Many of the states prohibit branch banking entirely; others allowed it within city or county limits; still others,

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of which California is the most striking example, impose no restrictions. In states which allowed branches, national banks were at a disadvantage, since they were practically limited in this field to the branches of such state banks as they might absorb. A change in the national banking law, giving them branch powers similar to those enjoyed by state banks in their respective states, would have been satisfactory to national bankers, but this remedy encountered opposition from states in which branch banking was either prohibited or restricted, since, upon its adoption, national banks would no longer have unitedly opposed further liberalization of legislation regarding branches in those states.

### Chain Banks

FINALLY, a compromise measure was adopted, under which national banks are permitted to open branches in cities in which state banks enjoyed that privilege at the time of the passage of the act, but not in wider areas, and not in cities that might subsequently be opened to branches by state law. And further, in order to curb the spread of branch banking under state law, it was provided that state bank members of the Federal Reserve System might establish additional branches only in localities in which the act permitted national banks to open branches. This measure places no obstacle in the way of a non-member state bank, but it was assumed that any

large bank, operating numerous branches, would desire to retain its membership in the system.

With the operation of branches narrowly restricted by legislation, the tendency toward concentration in banking is manifesting itself to an increasing extent, in a slightly different and decidedly more unsatisfactory fashion—in the formation, under a bewildering variety of arrangements, of chains of banks. Investment in a limited number of shares in scattered banks does not constitute a chain of banks. Some measure of control and management is involved. Chain banking overleaps state boundaries, and may, and commonly does, include both state and national banks. Chains lack the internal controls of a unified accounting system, and they escape the simultaneous examinations to which banks with branches are subject. In spite of these defects, with management in honest and capable hands, good results will be attained, but it is obviously a form of organization which lends itself to grave abuse.

During the seven years, 1921-1927, according to information gathered by the Federal Reserve Board, 4513 banks suspended payment, of which 559 were subsequently reopened. The total deposits of these failed banks were \$1,151,000,000, an average of but \$291,000 for each bank. Even if large allowance is made for heavy withdrawals of deposits shortly before failure, it is evident that this epidemic of failures has been confined almost entirely to small banks with resources of less than \$500,000. Since the business of such banks is ordinarily circumscribed within narrow local areas, these numerous failures, however grievous to the communities in which the banks were established, have not been a large factor in the general financial situation of the country.

### Stress Was Severe

THESE failures do not imply a weak condition and poor management of the banks generally, but they indicate, as does experience in earlier periods, that large numbers of banks, which seem to be in a flourishing condition during years of business activity, are unable to withstand the stress and strain incident to depression and a downward adjustment of values in the communities in which they are established.

Dishonesty and gross mismanagement account for a small number of these failures. The suspension of a larger number was precipitated by adverse conditions of a purely local character, such as a succession of crop failures or the sudden collapse of real estate booms in particular towns and cities. But the great majority of banks failed because they were unable to withstand the stress exerted by the persistence of unprofitable prices for the products of agriculture and animal husbandry—stress that was particularly severe because it was experienced after years of abundant prosperity and extreme appreciation

in the value of farm property, and a large increase in the number of farms mortgaged and the amount of mortgage indebtedness.

These adverse conditions alone, it can hardly be too strongly emphasized, do not furnish a complete explanation of the numerous bank failures of the last seven years. Great significance in this connection attaches to the findings of a special committee on the banking situation, appointed in 1927 by the legislature of Minnesota, a state in which adverse conditions have been particularly severe and the number of bank failures numerous. Analyzing the causes of bank failures, the committee says:

A survey of the closed bank situation in Minnesota presents an interesting picture. Certain communities of the state seem to have escaped entirely, or almost entirely, this epidemic of closed banks, while in other parts of the state the proportion of closed banks to the number of banks chartered in the community is very great. Nor is this unequal distribution of closed banks due in large measure to different conditions of soil or condition of the farmers, for in parts of the state where the farming conditions are almost identical one part shows a large percentage of failed banks and another part almost none. The cause lies deeper than that.

Unqualified agreement with this view of the matter, as seen by the Minnesota committee, is not inconsistent with recognition that external conditions during the last ten years, in certain parts of the country, have been most unfavorable to the conduct of banking along safe lines. In the agricultural development of the country, however, the stage is apparently being more generally reached in which farm values will be more closely related to current net income. Except in the event of a war of major magnitude, it is not probable that commodity prices will again exhibit the extreme fluctuations of the last decade, or that we shall again witness the number of bank failures that has marked the last seven years. If this anticipation is realized, the bank failure problem assumes more manageable proportions, but, in the absence of improvements in organization and practice, it is not to be doubted that a discreditable number of failures will continue to occur, mainly concentrated in periods of trade reaction.

### Public Must Use Banks

**T**HERE are hundreds of small banks throughout the country which are ably managed and abundantly strong, and which overcome the handicap of an absence of industrial diversity in the communities which they serve by the exercise of exceptional judgment and caution. On the other hand, while there is no exact relationship between the number and size of the entire group of banks in a locality and the strength of its banking position, it is certain that no community can hope to enjoy the benefits of safety in banking if the business is organized in units so numerous as to exceed the available supply of competent officers and responsible directors, and with insufficient earning power to be able to absorb inevitable losses.

As in earlier periods marked by numerous bank failures, an insistent

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demand for greater safety in banking is to be anticipated, and this demand is not rendered less reasonable by the presence of strong and well-managed banks in every locality. The public must make use of banks, but few are in position to distinguish between the strong and the weak. Bank statements and other external information relating to banks do not furnish an adequate basis for intelligent discrimination. Unless failures become infrequent, it may be expected that all banks will be subjected to an increasing range of restrictions, restrictions which are quite superfluous for well-managed banks, but

which are adopted to curb the weak and incompetent minority.

But safety in banking will never be secured if reliance continues to be placed primarily and almost exclusively upon legislative restrictions covering the details of banking operations. A more immediate enforcement of existing legislation would do much, but remedies for bank failures, to be effective, must be designed to reduce the number of financially weak banks, secure more competent officers and directors, and above all to insure that unsound policies will be checked long before solvency is threatened.



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## The Employment of Bank Funds

(Continued from page 1245)

few customers of large accounts who are large borrowers, the policy must be somewhat different from that of a bank with a large number of moderate depositors who make moderate demands upon the bank for credit. There are certain banks which have insufficient funds to care for their customers in an adequate manner and there are other banks with an excess of funds which require a search into outside markets for the successful and prudent employment of this surplus. The underlying principle of diversity requires that all banks have certain investments in addition to their

customers' note case that may be termed a secondary reserve and it is at this point that the careful banker becomes a student of conditions affecting interest rates and the corresponding position of bond prices.

It has been all too common in the past, during periods of cheap money, for bankers who find themselves with a surplus of idle funds to go into the bond market at the then relatively high prices and buy long-time bonds in order to get these funds at work, only to find later, when money is high and bond prices suffer correspondingly, that their insti-

tutions either have to stay out of the market or sell bonds in a period of hard money at a considerable loss.

We are fortunate in having a Federal Reserve System which serves as a great stabilizer of credit. While it is difficult for the system at times to exert that influence upon excesses which might develop through the optimism of the American people, it may be safely taken for granted that the system can adequately take care of the credit structure without distress to legitimate business. One wonders what might be the picture if the bankers of this country were to be confronted with the statistics in connection with brokers' loans in New York City and the tremendous volume of loans that must be carried by individual banks against market collaterals if there were no Federal Reserve System.

## Conditions Govern Policy

EXCESSES of any kind are prone to lead to distress. It is that banker whose watchful eye is able to detect indications of inflation who can best utilize a financial policy for the employment of his funds to the greatest amount of good for his bank, its customers, as well as its shareholders. The more prosperous and profitable a bank may be, the better able it is to serve its community. Those bankers who were able to liquidate their long-time investments in periods of the lowest interest rate, placing their funds into short-time paper at a temporary loss of profit to themselves, were those who profited most largely by a hardening in rates. Those bankers who today are willing to forego the high rates on call, where their secondary reserve is probably placed at present, for the purpose of buying long-time funded securities at prevailing low market prices, will probably find a profit from enhanced values as well as a reasonable rate on their holdings when interest again reaches that level which it is justifiable to expect will come in the future.

If, then, the formulation of a definite investment policy for any individual bank will provide that a certain percentage shall be kept in cash, government bonds and exchange, a certain percentage in loans to its own customers, it then becomes apparent that the bank officials must familiarize themselves with bankers' acceptances, commercial paper, real estate loans and the various types of funded obligations of states, municipalities, public utilities, railroads, foreign governments, foreign industrials, equipment trusts and investment trusts.

It is also apparent that a study of conditions is necessary for them to determine whether it should be the policy of their bank at any particular period to buy the short-time obligations such as the commercial paper, bankers' acceptances, short-maturing or past-optional bonds, or whether these, if held in their portfolio, should be sold or matured and the proceeds placed into the long-time obligations of railroads, public utilities and municipalities. It is through taking advantage of changing conditions that safety and yield may best be served.



Andrew Mellon, Secretary of the Treasury, laying the cornerstone for the new Internal Revenue Building in Washington, D. C.

## The Storm on the Reichsbank

(Continued from page 1230)

for rediscounting, and to reject bills drawn with the apparent object of raising marks for the purpose of buying exchange. Possibly the bank may obtain international credits. Finally, it is allowed by law in certain circumstances to reduce the ratio of circulation cover for its own bank-notes to below 40 per cent, conditions being that certain variable discount rates shall be maintained and that a heavy tax shall be paid to the state. Neither of these last expedients would tend to foster international confidence; and it would be better not to adopt them.

### Danger of Deflation

THE main fact to be borne in mind—the fact ignored by panicky Germans and non-Germans—is that there is no prospect of a new inflation. The effect of the crisis is the opposite. Under the 40 per cent cover rule every mark lost to the Reichsbank's reserves means a potential decline of  $2\frac{1}{2}$  marks in the circulation. The danger is therefore not of a new inflation crisis but rather of a deflation crisis which would weaken the already weakened industrial activity. The movement of prices shows incontrovertibly that no inflation is under way. With 136.3 in late April, the price index is the lowest for two years, and it is nearly five points below the level of July, 1928. This price-drop must tend to increase export and to restrict import; and thereby to reduce the demand for foreign bills.

From the transfer question no peril need be feared. The crisis shows that the general international movement of funds may have a much greater influence than transfers upon the exchange position and the Reichsbank's



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reserves. If in four months the Reichsbank lost some 1,200,000,000 marks from its gold and exchange holdings, the cash transfers for reparations, varying around a mere 60,000,000 to 80,000,000 marks a month, could play no important role.

In the past two or three years native and international confidence in the stability of the new reichsmark has greatly increased. This confidence is shown in many ways. Foreign deposits in the great Berlin banks are now largely held in marks. Formerly they were held in dollars, sterling and gulden.

Three years ago a bond expressed in reichsmarks could not be sold abroad. Of late foreign countries, in particular Holland, have been buying mark municipal loans and mark mortgage bonds with as much confidence as if they were in dollars. Four years ago practically all German life and fire insurances were contracted in foreign currencies or in gold marks. Today they are largely in reichsmarks. In judicious minds this increasing confidence cannot be shaken by the events of April and early May. The exchange crisis merely dispelled the last lingering doubt.

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eral settlement would not only provide for the settlement of the special debt but would, in fact, serve to reduce the amount ultimately to be paid by nearly half. This saving is not likely to be overlooked by the French government or the French people.

### *From One Pocket to Another*

**A**SSUMING that the general debt settlement is not ratified, however, the French government can follow one of three policies. It can extend the period of the present loan; pay the amount due outright by the transfer of gold to the amount indicated; or pay the loan from cash on deposit in American banks and by the liquidation of its holdings of short term investments in the United States. As to the extension of the loan there is nothing at this time to indicate that the French government has any such intentions. Payment by the shipment of gold would entail great expense and losses, would weaken the gold position not only of France but of the whole of Europe, and in fact is exactly contrary to the policy of building up its gold reserve which France has followed ever since such policy became possible. On the other hand the payment of this debt by the transfer of cash or short term capital already in the United States would be the most natural and feasible method, in fact with the current premium on the American dollar in France and Europe generally it is practically the only manner of cash payment possible.

Moreover it does not appear that the transfer of the ownership of \$407,000,000 now deposited in the United States from the French government to the United States Government would necessarily entail any considerable disturbance in the American credit situation or the world's money markets generally but rather that such a transfer would cause much less disturbance than any other manner of payment, certainly much less than any attempt on the part of France to remit \$407,000,000 to the United States at any time in the near future. The transfer of cash deposits would lead to no other effect than an ordinary shifting of cash balances in any great financial institution. The shifting of short term capital commitments probably would involve partial liquidation over a preparatory period but after all the money is now here, and will remain here and it ought to require no very high degree of finance to shift the money from one pocket to another. The more serious question in the premises is as to whether or not France can safely part with so great a sum in cash or short term investments in the United States without impairing its general financial position.

### *Gold Was Withdrawn*

**I**T is a question just how much ready money France now has in the United States which could be used for such a purpose. Two years ago it was currently accepted in European financial circles that French gold holdings, bank deposits and other short term credits in the

## Foreign Money in American Markets

*(Continued from page 1234)*

due and some provision must be made for its payment.

It is generally assumed in most financial circles that by reason of its large holdings of short term capital in the United States, France has acquired a commanding position in the short term credit market and the possibility that it will use this position and employ its short term and sight draft funds for the liquidation of this particular debt suggests possible results which are far from reassuring. In some respects this question of what France may do with its American balances under the pressure

of the necessity of discharging its particular indebtedness when due is typical of the more general question as to how much command the United States possesses over the foreign funds which have been entrusted to its care.

So far as the payment of this special debt of France to the United States is concerned the policy of the French government is yet to be determined. Primarily the matter hinges upon the question of whether or not the general debt settlement between the two countries will be ratified by the French legislative assembly. Ratification of the gen-

United States amounted to \$1,000,000,000. The foreign asset holdings of the Bank of France at that time were unknown but later events seem to have justified such an estimate. M. Henri Guitard, Deputy Inspector of the Bank of France, in his article in the AMERICAN BANKERS' ASSOCIATION JOURNAL of December, 1928, states that its holdings of dollars, pounds sterling and Dutch florins at its height amounted to over 40,000,000,000 francs or at current exchange \$1,560,000,000.

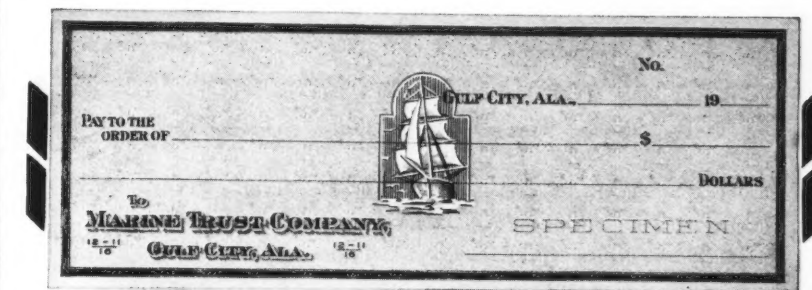
This great balance, however, had been built up for the purpose of stabilizing the value of the franc and establishing it upon a gold bullion basis. To accomplish this end France took advantage of the exchange situation and outward gold movement in the United States in the closing months of 1927 and the first half of 1928 and withdrew from the United States against its American holdings upward of \$300,000,000 in gold, thus reducing its putative American holdings to something like \$700,000,000. With the revaluation of the franc in June, 1928, the Bank of France inaugurated the policy of giving the world more adequate and correct statements of its position in international finance and otherwise and since that time we have a rather definite record of France's financial holdings abroad.

The statement of the Bank of France on June 25, 1928, the day after Premier Poincaré's stabilizing law went into effect, showed that at that time the bank held foreign assets to the value of 36,307,000,000 francs; by December 28, 1928, these assets had fallen to 32,641,338,000 francs; by March 15, 1929, they had fallen to 29,273,926,000 francs and by May 10, 1929, they had fallen to 26,339,000,000 francs.

At an average exchange of 3.90 American cents to the franc the total foreign holdings of the bank on June 25, 1928, amounted to \$1,415,973,000; on December 28 last they amounted to \$1,273,012,182, while by May 10, of the current year they had further shrunk to a value of \$1,027,221,000, of which only \$311,493,000 was subject to demand. In other words in a little less than eleven months these assets of the bank fell off to the amount of \$388,752,000, nearly two-thirds of this amount being lost in less than five months of the current year. Over \$300,000,000 of the loss was in sight deposits.

### Short Term Holdings Large

JUST how much of this decrease in the bank's foreign assets was in its holdings in the United States is uncertain. If the estimate current in 1927 that the United States held \$1,000,000,000 of the \$1,500,000,000 of foreign assets of the bank was approximately correct and the reduction of assets in this country has been proportionate to the general reduction, the decrease in French holdings in this country during the past eleven months has approximated \$200,000,000, thus reducing the \$700,000,000 holdings after the outward gold movement to a round \$500,000,000. This view is sup-



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ported by the estimates which have been made from time to time during the past eleven months indicating that France has sold from 4,000,000,000 to 5,000,000,000 francs in American exchange during that period to prevent the shipment of gold to the United States.

From time to time during the period under review it has also been reported that France has transferred considerable of its American funds to London to support sterling exchange, thus reducing its American holdings without reducing its foreign assets. It has also been reported in the past few weeks

that France has transferred some of its American assets to aid Germany in the protection of the latter's gold stocks. French short term holdings in London are large while those in Amsterdam are considerable. Undoubtedly French holdings of deposits in American banks and of short term capital in this country are still large but it seems evident that they are far below what they have been thought to be and their reduction in the past few months has been very rapid.

It should be noted in passing that while the holdings of American bills by



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the Bank of France in the May, 1929, statement is lower than such holdings in the statement of last December there has been a slight increase in the amount of French money invested in such short term capital commitments since the statement of March 15 of the current year, but the increase, \$1,698,723 for all countries, certainly shows no special effort or ability on the part of the French authorities to acquire a commanding position in the American short term money market. On the other hand it shows no tendency toward a liquidation of such commitments as against a cash payment of \$400,000,000 to the United States in less than three months.

### Must Maintain Balances

IN any event the fact remains that the total French holdings in the United States have probably decreased by about 50 per cent in two years and the question naturally arises as to how much further France can go in the reduction of its foreign short term holdings with safety to its currency exchange position. It should be noted that as the foreign assets of the Bank of France have decreased its gold reserve in France has increased, the gold reserve on May 10, 1929, amounting to 36,575,000,000 francs (\$1,426,425,000) which was 57.67 per cent of its note circulation.

The evident policy of the French government is to build up its gold reserves for the protection of its currency at home rather than to rely upon its holdings abroad. But it is also evident with an expenditure of nearly \$400,000,000 of its foreign short term balances in the first eleven months of the current fiscal year in carrying out a policy in which the prevention of the return of gold to the United States was a prime consideration it is faced with the necessity of maintaining its American balances at their present level if indeed it will not be compelled to augment them.

What France will do with respect to its \$400,000,000 debt to the United States due in August remains to be seen. It is very doubtful if it can afford to pay the debt outright by the transfer of funds now in the United States. It certainly can not do so without weakening its control of exchange which is the foundation of its international fiscal policy in such a manner as to threaten the stability of its gold reserve. Large American balances are an absolute essential for the protection of the franc if for no other reason.

The situation of France is typical of nearly every other country having financial relations with the United States. The condition which brought foreign funds into American banks and into American short term investments still operate and will continue to operate and necessitate the maintenance of such funds so long as the economic position of the United States in relation to the rest of the world remains as it now is.

THE merchandise balance in favor of the United States in 1928 amounted to \$1,039,000,000, and in the first ten months of the current fiscal year it amounted to \$1,060,786,000. The net sum due the United States from abroad each year as interest on American investment abroad and all similar earnings and after due allowance for all miscellaneous current items in the balance of international payments is another \$500,000,000. The net export of American capital in 1927 was estimated at \$671,000,000 which did much to relieve the pressure of funds coming to the United States but with the falling off in the placing of loans abroad by the United States in 1928 the pressure for dollar funds increased greatly and is now evidenced by the heavy premium on dollar exchange in Europe in spite of the efforts and sacrifices to prevent or avoid it.

Nearly a third (\$519,124,000) of the \$1,750,943,000 foreign deposits in American banks are offset by the liability of American banks for unmatured bills drawn by foreigners and accepted by American banks in the financing of trade while the European liability is less than a fifth of that sum. All of the nations which have rehabilitated their currencies since the World War still find it necessary to maintain American balances or place American loans to protect their currencies; all of them find it necessary to maintain large American balances to finance their increasing trade

with the United States; in short, large foreign balances in the United States are a necessity which is as pressing today as it was when the funds were first sent here.

Foreign short-term funds in the United States at the end of 1928 were only \$226,102,000 less than at the end of 1927 in spite of the export of \$392,000,000 in gold from the United States during the year, the variation, in spite of the special demand for gold, being about 7.3 per cent. It is likely that there will be similar variations from year to year just as there are variations in the deposits of any local bank, but in the long run the general level of foreign deposits in this country will be maintained much in the same proportion as the present deposits bear to the total financial transactions of the United States with the rest of the world. Already much of the deposits lost last year has been recovered by the influx of gold into the United States during the current year.

## Guide to Bonds

(Continued from page 1238)

- (1) Gross income less operating expenses and taxes;
- (2) Net income;
- (3) Interest requirement;
- (4) Then a statement as to how many times interest is earned.

Thereafter there will be deducted from the remainder dividends on the preferred stock, dividends on the common stock; then an item for depreciation, or, as it is sometimes called, retirement reserve; and the remainder, if any, is carried to the surplus account.

Let us assume a utility corporation has physical property carried at a book value of, say, \$100,000,000. Let us assume a gross income of \$16,000,000; and operating expenses and taxes, other than Federal income taxes, consume \$11,000,000 of this gross income; leaving \$5,000,000 which the corporation, and the bond circular, call "net earnings."

The company has \$100,000,000 physical assets. A proper depreciation charge for those assets would be, we will say, \$2,000,000 a year. Interest and fixed charges amount to \$3,000,000 annually. Preferred stock dividend requirements are \$2,000,000. How many times is interest earned?

In a study of the method of reporting depreciation, Lawrence H. Sloan found that out of 545 industrial companies subjected to analysis, only 219, or about 40 per cent, gave any data whatever revealing the sums charged for depreciation.

## Bank Control of Call Money

(Continued from page 1241)

lost control of the call money market is accepted it does not follow that they can not regain their former commanding position. It must be remembered that it was not until the restrictive policies of the Federal Reserve System forced the banks out of the market that

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loans of "other" assumed major proportions. Because the banks have been, figuratively speaking, forced out of the call money market is no reason for destroying it.

Loans under the system of semi-monthly settlements are time loans. Clearly loans to finance trading on the New York Stock Exchange under any modification of the London system would be time loans, of a maturity corresponding to whatever period of settlement might be adopted. Unless trading for a settlement date virtually superseded trading for cash as the everyday practice there would be no purpose in in-

stalling the London method. Therefore the adoption of the system used in London would mean the doom of the American call money market.

There has never been any question of the value of the call market to banking. It has provided the most liquid form of investment that has ever been devised. It has enabled banks to keep funds at work. Semi-monthly settlements might reduce the volume of speculation on the market and then again it might be found more profitable to speculate within the period of the settlement, playing both ends against the middle so to speak.

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International Harvester Co.  
National Biscuit Co.  
Otis Elevator Co.  
Timken-Roller Bearing Co.  
United Shoe Machinery Corp.  
United States Steel Corp.  
Woolworth (F. W.) Co.

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the United States

But it is a serious question whether, all things considered, the abolition of the call money market would work out to the advantage of the banks. Obviously the absence of call loans upon which a bank can realize quickly necessitates a rearrangement of its reserves. Time loans, no matter for how short a period, tie up money.

There is another approach to the question of bringing some stability into the call money market that does not seem to have received much consideration. The real problem has been the "others" and yet all the proposals for "doing something" about the call money rate have been aimed either directly or indirectly at the banks. The lending of money on call and for other purposes is

a recognized banking function. Until recently the lending money on call by industrial corporations has not been regarded as one of their functions.

A certain amount of attention has been directed to the procedure of some corporations in issuing stock to increase their surpluses and then utilizing surplus to make loans on call. But the discussion of what to do about the money market has in the main centered around the banks.

Modern corporation charters are pretty broad. There is little doubt that the average corporation can do very much as it pleases in the lawful pursuit of profits. But can an industrial or commercial corporation do a banking business without specific authority? It

would seem that it can in competition with associations chartered for the purpose of operating a bank in a specified locality.

Until the last year or so the loaning of money on call had been generally conceded to be a banking function. Now it is anybody's function. Would it not be logical to require those who invade the field of banking to submit to the same regulation as the banks? In that event the call money market would be less of a free-for-all and the banks would come into their own again.

## Loan Administration

(Continued from page 1242)

per cent as against .45 per cent in the second bank. The net losses from total earning assets averaged .91 per cent as against .26 per cent for the bank with the more conservative and diversified investment program. The net result was that the first bank earned 4.34 per cent before deduction for operating expenses other than loan administration expense, while the more conservative and liquid institution earned 4.50 per cent.

The fact that no absolutely fixed program can be developed suitable to the requirements of all banks is evidenced by the great variations in the underlying factors which affect the financial structures of various banks. Before a financial program can be developed suitable to the specific requirements of an individual bank, one must be familiar with the influencing factors, then evaluate these factors, and from them develop a financial plan which meets the conditions disclosed.

An illustration of the evaluation of underlying liquidity factors is given by the accompanying Table 1:

TABLE 1  
Size Classification of Deposit Accounts

| Classification | Number | Per Cent of Total Number | Dollars     | Per Cent of Total Dollars |
|----------------|--------|--------------------------|-------------|---------------------------|
| Under \$100    | 1,517  | 51.6                     | \$59,325    | 2.3                       |
| \$100-500      | 812    | 27.6                     | 95,121      | 4.3                       |
| 500-1,000      | 403    | 13.7                     | 303,500     | 14.1                      |
| 1,000-5,000    | 112    | 3.8                      | 227,600     | 10.5                      |
| 5,000-10,000   | 78     | 2.6                      | 412,416     | 19.0                      |
| 10,000-25,000  | 12     | 0.4                      | 240,112     | 11.2                      |
| Over 25,000    | 7      | 0.3                      | 832,120     | 38.6                      |
|                | 2,941  | 100.0                    | \$2,159,194 | 100.0                     |

Table 1 presents a size classification of deposit accounts in a bank in which there is a congestion in a few large accounts; nineteen accounts represent 49.8 per cent of the total dollars. Hence, a withdrawal of but a few of these accounts would seriously affect the volume of deposits. Therefore, in this case, the primary and secondary reserves must be large to meet this situation. In another bank similar in size, 50 per cent of the deposits was represented by 312 accounts, hence the primary and secondary reserve requirements were not nearly as great as in the first bank.

## Two Primary Costs

THE chief source of the lending power of a bank is its deposits. The business side of commercial banking con-

sists primarily of purchasing raw material in the form of deposits and converting these into loans at a price to affect a yield higher than what the funds cost the bank. There are two primary costs in this procedure:

1. The cost of securing and keeping the deposits of customers, and
2. The cost of converting these deposits into loans and discounts, bonds and securities, and of administering these assets.

Hence, credit risks being equal, the customers who have contributed most to the bank's raw material—deposits—are those most entitled to credit accommodations. This is fundamental from a standpoint of customers' service and profits. The first test, therefore, in determining whether or not a loan request should be granted is the degree with which an applicant has contributed to the fund which makes loans possible. During such times as the loan demand is greater than the available loanable funds, the chief test as to who should be accommodated and to what extent (credit risk being equal) is the record of deposit balances.

To achieve justice as between checking non-borrowing accounts and borrowing accounts, it is only fair that the borrowing account contribute sufficient deposit funds so that the earnings therefrom will at least pay for the cost of the loan and credit functions. What relationship the balances should bear to loans in an individual institution can only be determined by a detailed income and cost analysis, but the 20 per cent rule has been the more or less accepted percentage. The principle and practice are sound, for the total cost to the bank of loaning money is far greater than the interest which it pays to obtain deposits. It costs the borrower money to borrow, but the right to credit must be earned.

### Small Loan Problems

**B**ANKS should prefer to select as borrowers customers who earn the right to credit by keeping balances having some relation to loans desired. Borrowers should maintain adequate cash balances sufficient to insure a safe, liquid position. A deposit balance equal to 20 per cent of the loan, or even 15 per cent, protects both the borrower and the bank. From the bank's standpoint, the balance in the deposit account should be at least sufficiently large so that the deposit account itself is profitable. In analyzing the profitability of checking accounts it certainly would be an unsound condition to find the balances, in comparison with activity, so low in the accounts of borrowing customers that their deposit accounts were being handled at a loss.

Summarizing, then, borrowers should be made to realize the importance of ample compensating deposit balances for three reasons:

1. To protect the cash position and liquidity of their own business.
2. To reduce the credit risk of the bank.
3. To maintain a deposit account that is profitable to the bank.

The deposit balance policy has been

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generally recognized on all types of loans except agriculture. When money is plentiful, some exceptions are made on collateral loans where the collateral is truly marketable.

The small loan problem offers a profitable field for the study of a bank's loans. This may be done by classifying loans according to size as indicated in the accompanying Table 2.

| Class        | Number of Loans | Per Cent of Total Number of Loans | Per Cent of Total Balances |
|--------------|-----------------|-----------------------------------|----------------------------|
| Below \$100  | 191             | 17.3                              | 0.5                        |
| \$100- 200   | 183             | 16.6                              | 1.4                        |
| 200- 500     | 267             | 24.2                              | 4.3                        |
| 500- 1,000   | 166             | 15.0                              | 6.0                        |
| 1,000- 2,000 | 110             | 10.0                              | 8.2                        |
| 2,000- 5,000 | 83              | 7.5                               | 13.1                       |
| 5,000-10,000 | 55              | 5.0                               | 20.2                       |
| Over 10,000  | 48              | 4.4                               | 46.3                       |
|              | 1,103           | 100.0                             | 100.0                      |

It will be observed from Table 2 that 33.9 per cent of the number of loans

are less than \$200 and represent only 1.9 per cent of the dollar totals. The income from a loan of this size in all probability will not be sufficient to meet the cost of handling the loan. Small loans should be made only to customers who have a good deposit record. They should then either be discounted and made payable on a definite monthly installment basis, or a service charge should be applied.

### Guarding the Dollars

**T**HE larger lines, \$2,000 and over, consist of but 186 items, or only 16.9 per cent of the total number, but they represent 79.6 per cent of the total dollars. These 186 lines should be carefully evaluated as to balance sheet and earning position, and the position of the borrower should be consistently followed up; the bulk of the loans will then be protected. The banker may well center

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the greater part of his thinking and efforts on these loans and not try to concentrate his efforts on a great many small loans.

In an analysis of sixteen small country banks, small loans—that is, loan lines below \$200—represented 40.9 per cent of the total number, but only 2.7 per cent of the total dollars involved. It is apparent that these sixteen banks were so cluttered up with small loans that loan administration expense per \$1,000 of loans must have been excessive, for it is in the handling of these small loans that the majority of the time of loaning officers and note cage

tellers is applied; because of this, it is difficult for them to find sufficient time to concentrate on lines involving large amounts, which should be guarded. These banks had 1616 small loans (less than \$100), and these comprised 13.2 per cent of the number and only 0.7 per cent of the dollars.

Large lines for country banks—that is, lines of \$5,000 and over—were represented by but 407 names, or 5.0 per cent of the total number, but they represented 61.3 per cent of the total dollars involved. An intensive analysis and follow-up of these 407 lines would guard 61 per cent of the dollars. Then,

an intensive analysis and follow-up of the group including loans of from \$1,000 to \$5,000 and represented by an additional 1352 names should be added thereto; as a result, about 25 per cent more of the dollars would be guarded, or a grand total of 86 per cent of the dollars would be protected by analyzing a relatively small portion of the loans in these sixteen country banks.

## Capital Financing

AS a policy with reference to small loans, some authorities hold that any loan of less than \$300 is unprofitable, even at high loan rates; for, against the interest income of these loans, the bank must charge the cost of funds, the cost of converting its funds into these loans, and the handling expense. Because bankers are commencing to realize this, two methods are employed to add to the straight income rate:

1. A service charge for handling the loan and/or
2. Discounting the loan at the prevailing local rate and having monthly installment prepayments made. The net interest is then substantially above the straight rate. In many banks this has become the accepted plan on small loans, not only to increase the income rate and to aid in off-setting the cost of handling, but, what is even more important, to make such loans self-liquidating. Other banks have the monthly deposits made in a savings account, and hold the account as collateral.

Some bankers recommend that no line of less than \$100 be considered; and that all unsecured lines of \$500 and less to individuals, small local businesses, and others, be placed on this industrial loan basis (endorsement required in each instance). It is quite a problem to educate many chronic small borrowers to this plan, but there are many bankers who believe it is worth while.

Another important principle of loan administration is concerned with capital financing. It is the responsibility of the management not to tie up its demand deposits in the capital structure of customer businesses. An extension of credit for financing capital or permanent assets is not the function of commercial banking, but of mortgage and investment banking. When a commercial bank becomes a partner in a business it assumes a risk far out of proportion to any income it may receive. If such a business is successful, the bank's principal plus interest is returned; but if the business is unsuccessful, even the principle of the loan may be lost, all for the sake of a slightly higher rate of return.

Commercial banks should be concerned solely with the extension of short term commercial credits to finance the production and marketing of current merchandise, and with the extension of agricultural credit to finance the growing and harvesting of crops and the raising, fattening, marketing of live stock; commercial loans are then liquidated by the sale of the crop or the merchandise. The bank that loans its demand funds to be used in the capital structure of business concerns is really backing poorly financed businesses and encouraging marginal competition.

## Profit and Loss

(Continued from page 1187)

is just. It gives a bank more time to spend with valuable people. A bank may lose in the number of accounts, but it can increase its deposits; and the charge alone, in many cases, will pay the dividends.

### Loans Without Interest

THERE are two phases to the service charge—the flat charge for accounts below the minimum, and the additional charge for exceptional activity in an account. The flat charge, for example, may apply to all accounts below \$100 which draw fifteen checks or more each month. But let us not forget to analyze our large accounts with large balances, and with exceptional activity. I have in mind a depositor who carried \$66,000. His average daily float, however, was \$50,000; and while no interest was paid, the bank was actually losing \$15.96 each month. The loss was due to the handling of 789 checks drawn each month at a cost of three and one-half cents each and 2024 checks deposited at a cost to the bank of one and three-fourth cents each; in addition, there was administration and credit cost. An activity charge should have been placed on that account.

Another phase of profits concerns N. S. F. checks, which in fact are local loans without interest. It is fair to say, I believe, that 95 per cent of such checks are without sufficient funds when written. In one town with five banks, an average of 1500 such checks had to be returned each month. The introduction of a service charge on these checks reduced the number of returns materially. Such a charge, ranging from twenty-five to fifty cents per check, will add to income and will assist materially in eliminating overdrafts.

One of the increasing sources of profit in many banks today is the float charge—that is, an interest charge placed upon checks deposited but not yet collected by the bank. Another method of adding materially to profits is the reduction of interest paid. An analysis of interest paid, as compared with interest and discount received, shows an increase of 50 per cent in the State of Missouri between 1921 and 1928; this condition prevails throughout the entire Middle West. Too many bankers, afraid of competition and of the possible loss of accounts, have continued to pay interest far out of proportion to the interest income received. One bank in the Northwest, by the introduction of service charges and float charges, and by paying 3 per cent instead of 4 per cent on savings accounts, has added \$8,000 a year to its net profits—16 per cent on its capital of \$50,000.

### Will Acquire an Open Mind

IN another case, a banker in a small community has built the largest institution in that section without payment of any interest on time deposits. There are many other cases where bank-

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ers, consulting their courage, have reduced interest rates in a sound and fair manner, regardless of competition, and with entire success. I have often thought it might be a good policy if banks would cooperate not to pay interest on savings accounts below a certain amount—accounts that were clearly unprofitable to the bank. Someone has estimated that almost half the savings accounts are carried at a loss. Why should banks carry one-half or more of their savings and checking accounts at a loss to their stockholders? Is the proverbial argument that the account may later show a profit really adequate?

Methods of figuring savings interest might profitably be reconsidered by many banks. This is a subject on which I have touched before. The American Bankers Association has developed sev-

eral methods which it considers fair both to the bank and to the customer. There are in use almost countless ways of figuring interest, under many of which the bank is unconsciously computing interest in a manner that results in a large loss to itself.

A bank in Ohio decided that it was paying too much interest for public funds and reduced the rate from 4.75 per cent to 2 per cent. The saving on this item was \$13,200 a year. Then the bank raised the free balance from \$500, and announced that it would no longer pay interest on any checking account having less than \$5,000. This change netted \$12,000 a year. It then fixed a service charge, which nets \$6,000 a year. These three items return almost 8 per cent on the bank's capital of \$400,000.

There are other charges which may



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well be reconsidered, such as those made for cashier's checks and drafts. Once the banker has tabulated his income and expense items, he will acquire an open and questioning mind which will reveal unexpected opportunities for increased efficiency and income.

#### On the Hazardous Route

**I**T is sound policy to be generous in charge-offs, as the recovery will naturally be large and net losses will be spread out evenly over a period of years. Some banks are charting their total losses on loans and discounts in order to indicate where and why such losses have occurred.

There is always a tendency to push up profits by placing more of the bank's funds in local loans than is sound prac-

tice. In one bank, 80 per cent of the funds were placed in local loans and 8 per cent in securities; in another bank, 56 per cent of the funds were placed in local loans and 30 per cent in securities. The bank which had sought greater profits along the hazardous route, by having too large a proportion of local loans, earned \$81 per \$1,000 of earning assets as compared with \$72 for the other institution; however, after deducting losses and expenses, it earned a net operating profit of only \$23, as against \$28 for the conservatively operated institution.

To become overbalanced in the direction of local loans at high interest penalizes the institution in expenses and losses. Profits is after all the final test.

Activity bears an important relationship to costs in our loan operations and

in our savings and checking account deposits. In two banks, one had fifty-seven loan transactions—that is loans made and paid per month—per \$100,000 of loans; the other had 215 transactions for the same amount of business. Obviously, with too many small loans and with great activity, we may easily reach the point where interest received is too small to offset the cost of funds plus loan handling expense.

#### Normal Average for Savings Transactions

**T**HE normal average for savings transactions—that is, deposits and withdrawals—per month per 100 accounts is about thirty. Since the average number of transactions per account is relatively uniform, the greater the average balance, the smaller will be the operating expenses per \$1,000. Of two banks, one had savings accounts averaging \$421 apiece, with eight transactions for each \$10,000 in balances; the other had an average of \$164, with twenty transactions for every \$10,000 in balances. Higher savings balances mean decreased activity, lower clerical cost, lower expense and improved net profits. The salary cost of handling a savings transaction in a recent analysis varied from 6.6 cents to 27.5 cents. Savings bankers who believe that we should accept any and all accounts will find some food for thought in that expense item.

The same principle of activity and costs holds true in the commercial department, where small balances with great activity mean increased expense. The number of transactions per \$10,000 of commercial department balances varies all the way from five to eighty-seven per month. Here again is an urge in the direction of quality.

Another of the important expense items is salary cost. In many departments, it is possible to measure work quite accurately. Some savings employees handle as few as 644 transactions a month, or less than four per hour, while others handle as high as 2100 deposits or withdrawals. Yet low salary cost per employee—that is, cut salaries—is not the way to reduce such expenses. Banks paying better than average salaries secure the highest efficiency and the lowest cost.

### Cross Currents in International Investments

(Continued from page 1195)

since the expanding domestic market can doubtless absorb the increase in production of such plants without injury to existing American plants. For similar reasons, few Europeans will seriously object to the upbuilding of their industries through an American "invasion."

After all, what is happening, so far as this interchange of industries is concerned, is the inevitable interchange of special methods of production, patents or technical ability in given fields.

## Why a Town Faded Out

(Continued from page 1191)

much the kidding of "Pinhead" Meeker, lost their jobs, but, of course, they never knew why. Later on other withdrawals made it necessary for forced payment of notes that the bank held against merchants and farmers in the community.

### The Cowardly Instinct of Money

GRADUALLY month after month the cowardly instinct that has characterized money for ages began to show itself in many different ways. Those who owned the money began to withdraw it from the banks and invest it in other localities, and the banks were compelled to continue to call the loans of their customers. As money grew more scarce men were discharged, expenses were curtailed, purchases were reduced to a minimum, and the town went onto a very restricted expense account. Then it became necessary for the bank to bring suits against many of its former customers to force payment of their notes to meet withdrawals of deposits. Judgments were rendered against them and their properties were sold to satisfy the judgments.

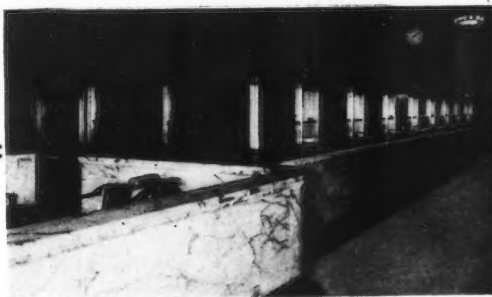
The bank had no alternative. The money on deposit belonged to the people, who had lost confidence in themselves and were gradually withdrawing it.

For a time the competing bank rather relished the situation. It had taken over many good customers of the Prajorx institution because it still had money to lend, but this did not last very long. The standard set by "Pinhead" Meeker was being adopted by the alleged intelligent people of the community and finally the second bank had to begin calling loans and suing its customers.

### Five Retail Stores Sold Out

"PINHEAD" MEEKER and the thoughtless who kidded him had brought widespread ruin. Before a year had passed five retail stores had been sold out to pay their debts and a dozen farmers had lost their farms who had thought themselves rich. Old miser Smith, who had bought the 320 acre farm for \$64,000, paying down the \$25,000 he had withdrawn from the Prajorx Bank, finally was forced to sell his farm to get the money to pay for the additional \$40,000 he had borrowed at the bank at the time the purchase was made.

This was due to the fact that the sale of his personal property, which he had counted upon to pay the note, had so shrunk in value as a result of the misfortune that had struck the community that he did not have half enough money to meet his obligations. He not only lost the \$25,000 that he sneaked out of his banker friend's institution, who had helped him build up his fortune, but he lost \$20,000 in addition thereto before he could again get square with the world. All because he lied to his banker and



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bought a farm that he neither wanted nor needed.

By this time the town was paralyzed, and forced sales had reduced values to a point where men who had thought they were well off were beggars. But the end had not yet arrived. The two banks,

finding themselves with a large overhead, consolidated so as to reduce the cost of operation. The two lumber yards also united their stocks and cut their overhead and slack was taken up all along the line. In fact, the town was fading out. No one would buy anything

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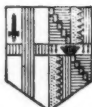
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he could do without. The remaining bank would not lend a dollar, for the reason it had to be ready to meet "Pin-head" Meeker's army of nitwits that hung around the street corners peddling rumors that had no foundation of fact, but which, in turn, frightened those who had money to invest.

Now Prajorx has not had a coat of paint for five years. Half of the stores are empty and their fronts are boarded up. The people who still live in the town stay on because they cannot sell their homes to get money enough to get away. A chain store has arrived. Half of the original farmers have been sold

out and tenants occupy the beautiful homes that they built and pay rent to absentee landlords. Passing down the main street of the town one is struck with the desolation of the place. "Pin-head" Meeker still runs a popcorn stand next to the empty soda fountain where he got the great inspiration that "busted" the town.

This is a true story of Prajorx in a beautiful valley, whose people, following in the footsteps of a halfwit, had destroyed themselves.

### Community Spirit That Means Business

*(Continued from page 1190)*

smart accomplishment for one city to steal an industry from another by making all sorts of offers and concessions. There is today a growing disposition on the part of truly farsighted communities to discourage the coming of any new plant or factory unless some basically sound economic reason for the move is plainly apparent. That sounds almost millennial, but it is nevertheless true. Not, I suspect, so much because of the ethics involved as because of the realization that any other course is the negation of good business.

### A Philosophy of Selling

SOME months ago the word went round the usual grapevine channels that a good-sized industrial plant was looking for a location in the Ohio River valley. The management of this company visited a dozen different proposed locations. Louisville did not want it because this particular mill could not have prospered in Louisville. When the management selected another site everyone connected with the city's promotional activity was relieved and gratified.

Incidents of this character are not peculiar to Louisville or to any one city or section. For today's advertisers among the cities are beginning to learn that what they want is not mushroom growth but new and lasting economic wealth. The new mill or factory or branch plant that cannot make good can be nothing more than a liability to a city acquiring it.

That, in a word, is the mainspring of city and community advertising as the best-counseled cities are conducting it today—a philosophy of selling that goes deeper than surface sincerity and mere technical truth in advertising copy.

### Canadian Gold Output Grows

The total value of Canadian gold production in 1928 was \$39,000,000, placing Canada third among the countries of the world in gold production, but the margin between the Canadian total and that of the United States was sufficiently narrow so that there is a good basis to expect that in 1929 or 1930 Canada will hold second place. The total production in the United States was \$43,000,000 a year in 1927 and 1928.

### Way to Figure Interest

(Continued from page 1233)

terly basis. The quarterly basis is therefore, more expensive and is somewhat more complicated to figure under the recommended methods.

## Fair and Reasonable

IT has also been suggested that the quarterly basis encourages withdrawals, it being well known how active withdrawals are at interest periods. Then too, since over 75 per cent of the banks already use the semi-annual basis it would appear that that basis is preferable.

Now let me call attention to one rule embodied in all four of these recommended methods that deserves to be announced with great emphasis. It is that "Interest be paid on sums remaining in the bank to the end of the interest period." That is entirely fair on a savings account, is it not? It should sound fair and reasonable to the depositor, also. Such a rule will never work a hardship on a real saver. A savings account used for its normal purposes will never suffer from it. Withdrawals can usually be timed, especially where the purposes of the deposit are known in advance, as in the case of savings for investment, taxes, etc. Pay interest on sums remaining in the bank to the end of the interest period.

There is quite a saving in interest to the bank on a diminishing account, but is a constantly reducing account a savings account? Any account that either remains steady or increases, receives under these approved methods a full allowance of interest.

There has been some discussion of the opportunity a bank has in effecting a saving in interest through a tightening up in method to avoid reducing the savings rate. And there is truth in the statement that it isn't good psychology to make a saving in interest cost through a change in method rather than a reduction in rate, the reason being that such a procedure would not be an open and frank one with depositors, in other words not strictly honest.

## The Recommended Rules

**B**UT that is not exactly the question under discussion. Banks must come to the place, as a matter of fairness, to themselves and to the public, where the same rate of interest on identical accounts in different banks, will produce for the depositor the same amount.

Before demonstrating how interest is actually figured under approved method D, let me state again these recommended rules. Figure interest on either quarterly or semi-annual periods. Allow interest either from date of deposit or from the first of the month, on amounts that have been in the bank as long as one calendar month. Deduct withdrawals from latest deposits. And last, and most important, pay interest only on deposits that remain in the bank till the end of the interest period.

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skip maybe several months during which the balance has been decreasing, the deposits therefore not remaining till the end of the interest period. The lowest balance, of course, is allowed interest for the full six months.



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Next we follow down the balance column till we find the next higher balance appearing in a later month than that in which the smallest balance occurred. After calculating the increase between these two amounts we determine when the deposit was made that brought the increase; then allow interest on the in-

crease for the rest of the period from the proper first of the month. We repeat this same operation until the last month in the period is taken into consideration.

Method D for computing interest on savings accounts is described by the Savings Bank Division as follows:

NOTE: Observe that in this method the

year is divided into semi-annual periods and that interest is computed and credited semi-annually. In applying this method to the four accounts, the semi-annual periods are regarded as beginning respectively January 1 and July 1; rate, 4 per cent. No days of grace are recognized.

The method, however, is equally applicable to any date at which your year may begin. In figuring interest under this method always commence with the smallest balance during the entire six months.

### Account No. 1

The smallest balance is also the last balance, therefore \$1,186 will receive 6 months' interest, payable July 1.....

\$23.72

### Account No. 2

The smallest balance is on January 1, \$800, which earns 6 months' interest..... \$16.00

Add deposits January 10, \$210, and February 1, \$307, total \$517, and deduct withdrawals, January 28, \$100, and February 15, \$400, total \$500, leaving a balance of \$17, which receives 5 months' interest... .28

Now look for the smallest balance during remainder of the period from February 15, which is found on May 15, \$852. By subtracting the February 15 balance, which is \$817 from \$852, a balance of \$35 results. This could also be obtained by adding the deposits and subtracting the withdrawals during this part of the period. That is, all that remains of the February 28 deposits is \$35, which receives interest as of March 1 for four months..... .47

Add deposits May 28, \$300, June 1, \$483, and 10th, \$300, total \$1,083, and deduct withdrawal June 22, \$500, leaving a balance of \$583, which receives 1 month's interest..... 1.94

Total interest due and payable July 1..... \$18.69

### Account No. 3

The smallest balance is \$105, which receives 6 months' interest..... \$2.10

Add deposits, February 10, \$400; 17th, \$185; 24th, \$310; and March 4, \$200; total, \$1,095, and deduct withdrawal March 15, \$1,000, leaving a balance of \$95 which receives interest from March 1 for 4 months... 1.27

Add deposits April 1, \$293, and 10th, \$709, total \$1,002, and deduct withdrawal April 30, \$1,000, leaving a balance of \$2, which receives interest from April 1 for 3 months... .02

Add deposits May 5, \$674, and 15th, \$383, total \$1,057 and deduct withdrawal May 31, \$1,000, leaving a balance, \$57, to which add June 1 deposit, \$402, total \$459, which receives interest from June 1 for 1 month..... 1.53

Interest due and payable July 1..... \$4.92

### Account No. 4

The smallest balance is also the last balance, therefore the \$285 receives 6 months' interest..... \$5.70

The other three methods recommended are contained in the report on uniform methods of computing interest on savings accounts in banks in the United States, issued by the Savings Bank Division.

### Employees' Aid

No employee, no matter how earnest or conscientious, can do his best for your bank unless he has some means of learning of the many new developments in the banking business. These new developments are covered in the JOURNAL—an employee-group subscription will assure their utilization for your benefit.

## Look Before You Give

(Continued from page 1218)

of a number of other banks will appear for the first time. I sometimes wonder if Barnum had in mind certain banks when he made his famous statement which needs no repeating.

Just as every banker owes it to his family to be on guard when making his family contributions to charity, he owes it to the stockholders of his bank to be even more watchful when approached by professional ticket sellers and by solicitors for one-time publications. By this I do not mean to convey the impression that all blind beggars are scoundrels, for drifting about among the fakers are beggars who are honorable, trustworthy and deserving of our fullest support and sympathy. I do not mean that all one-time publications are high pressure promotions pure and simple, for among them there is here and there an occasionally deserving one-time publication. I do mean that as the promotion type is in the big majority, bankers ought never to relax their eternal vigilance.

### The Banker's Safeguard

THE least any banker should do is to investigate first, and not buy first and investigate afterward. If this rule is followed, it won't be many days before promoters who get about 90 cents on the dollar will be few and far between, and banks that get their full money's worth the rule and not the exception.

Watch for ticket promotions and for fly-by-night publications and cull them out with the same kind of determination that a gardener goes about it in pulling devil's grass out of a well-kept lawn. Take plenty of time to investigate. Don't be talked into believing that the bank across the street is buying tickets in wholesale quantities or is moving heaven and earth in an effort to get the most desirable space in every publication that bobs up. Keep your eyes on the solicitor who tries to high-pressure you into buying his goods by playing your bank against other banks. That kind of stuff sounds good at first, but rings false the longer you listen to it, for, had the bank across the street wanted the space, the solicitor would have sold it long before he called on you. Just write it down that, as a rule, your competitor doesn't want what some high-pressure salesman is trying to sell you on the grounds that he does want it.

In the interest of better banking, let every banker take a few doses of the medicine he has been giving to his own customers who are investors, and, like them, let him also "investigate before he invests." And if he will do this, the money that he is now spending on advertising mediums of doubtful value will be available for those agencies that are far removed from the promotion class.

By eliminating all unworthy beggars and all promoters, whether selling tickets to some trumped-up affair or space in some fly-by-night special number, you will have more funds available for expenditure along proper channels.



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## Convention Calendar

| DATE        | STATE ASSOCIATIONS   | PLACE                |
|-------------|----------------------|----------------------|
| June 10-12  | Wisconsin            | Milwaukee            |
| June 11-12  | North Dakota         | Minot                |
| June 12-15  | California           | Sacramento           |
| June 13-14  | West Virginia        | Bluefield            |
| June 14-15  | Connecticut          | Swampscott, Mass.    |
| June 14-15  | Massachusetts        | Swampscott           |
| June 17-18  | Oregon               | La Grande            |
| June 17-19  | Minnesota            | Minneapolis          |
| June 17-19  | New York             | Toronto, Canada      |
| June 18-20  | South Carolina       | Greenville           |
| June 19-21  | Illinois             | Aurora               |
| June 20-21  | Kentucky             | Paducah              |
| June 20-22  | District of Columbia | Montauk Beach, L. I. |
| June 20-22  | Maine                | Poland Springs       |
| June 20-22  | Virginia             | Old Point Comfort    |
| June 20-22  | Washington           | Spokane              |
| June 21-22  | Colorado             | ....                 |
| June 21-22  | Utah                 | Logan                |
| June 24-25  | Idaho                | Idaho Falls          |
| June 24-26  | Iowa                 | Des Moines           |
| June 24-27  | Michigan             | Charlevoix           |
| June 25-27  | North Carolina       | Asheville            |
| July 19-20  | Montana              | Billings             |
| Aug. 30-31  | Wyoming              | Lander               |
| Sept. 11-12 | Indiana              | Evansville           |
| Nov. 8-9    | Arizona              | Phoenix              |

| DATE            | OTHER ASSOCIATIONS  | PLACE               |
|-----------------|---|---------------------|
| June 10-14      | Reserve City Bankers  | Detroit, Mich.      |
| June 10-14      | American Institute of Banking   | Tulsa, Okla.        |
| June 14-15      | New England Bankers   | Swampscott, Mass.   |
| Sept. 24-26     | National Association of Supervisors of State Banks  | San Francisco, Cal. |
| Sept. 25-27     | Pacific and Rocky Mountain Regional Trust Conference, Trust Company Division, A. B. A. and Trust Company Section Utah Bankers Association | Utah                |
| Sept. 30-Oct. 3 | American Bankers Assn.  | San Francisco, Cal. |
| Oct. 7-11       | International Thrift Congress   | London, England     |
| Oct. 30-Nov. 2  | Financial Advertisers' Assn.  | Atlanta, Ga.        |



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## Condition of Business

(Continued from page 1254)

chased to hold through a decline, the holders may have to devote their income from other sources to paying off loans rather than spending on articles for consumption.

Although the stock market has not made a great deal of upward progress since the first of the year and the large volume of trading (33 per cent ahead of last year to date) has resulted principally in mixed and irregular movements, the recent decline in quotations may appear more severe than if the same percentage of decline occurred at a lower price level.

As a measure of the decline that has taken place from the 1929 high prices we are presenting as follows the latest index of the Standard Statistics Company for the general groups of industries, rails and utilities, with a comparison with the low prices of last year:

| Number | Group       | 1928  | 1929  | 1929  |
|--------|-------------|-------|-------|-------|
|        |             | Low   | High  | Last  |
| 338    | Industrials | 132.5 | 198.8 | 189.1 |
| 33     | Rails       | 120.5 | 145.3 | 138.4 |
| 35     | Utilities   | 128.3 | 216.0 | 211.5 |
| 406    | Combined    | 130.3 | 192.0 | 185.2 |

Expressed in another way, the industries are approximately 5 per cent down from the current year's high but 43 per cent above the low of only last year; railroads are also down 5 per cent but still 15 per cent above the low of last year; utilities are only 2 per cent below this year's high and 65 per cent above last year's low; the combined average is but 3.5 per cent below the high of the current year and of all time and is 42 per cent above the 1928 low.

IN connection with the advice often given by brokers, to purchase the "good stocks," it is often difficult to decide just what is meant by this term, and mention might be made of the extraordinary strength of the leading corporations in a score of industries. As tested by size of earnings, there were no less than 142 American corporations which last year earned \$10,000,000 or more net profits. The average investor, or even a banker had not had occasion to study this feature of corporate growth, would hardly say off-hand that there were one-tenth as many. This group of corporate giants included seventy-five industrials, twenty-one railroads, thirty-seven public utility systems and nine financial institutions. If the investor would confine his purchases more to the dominating corporations in a diversified list of industries he might suffer few of the losses that keep coming to those who purchase unseasoned issues of small companies from stock salesmen, most of which slump badly when the general stock market loses its upward momentum. Practically every one of these companies are listed on the exchanges where an investor may buy one, two or more shares and build up his own "investment trust" without having a large share of the profits turned over to some organizer as "management expense."

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## A Preview of Profit

IN December, 1926, we recommended Port Morris Bank (of New York City) stock, before a capital increase, at \$450—now equivalent to about \$2300.

*We believe we can recommend today for profitable investment stocks of several New York City banks whose earnings indicate they are in line for price appreciation.*

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### Foreign Financing Off

ALTHOUGH the situation in the domestic bond market is quite bad enough, especially for the distributing houses which have a large overhead of office expense, branches, private wires, salaries, etc., and in recent months have been getting hardly enough business to warrant keeping their organizations intact, the foreign financing has dropped to practically negligible quantities and in time must have a most unfavorable effect on the country's export trade. Domestic corporations which do not find the present market receptive to bond issues have only to wave the magic wand of "stock rights" to have their shareholders respond with all the funds that are needed (even though such funds must be borrowed from the banks directly or through brokers).

Foreign loans, however, and stock issues as well, serve to create foreign exchange with which individuals and corporations abroad can purchase our grain, flour, cotton, tobacco, automobiles and trucks, agricultural implements, machinery and tools, office equipment, gasoline, etc. If the supply of these new credits is cut off it becomes patent that the volume of exports cannot be expected to continue at the high level to which they have been built up. For the month of April our exports amounted to \$427,000,000 and were the smallest for any month since last September, while imports came to \$409,000,000, which is the largest for any month in over three years and has been exceeded only twice since 1920.

In the first four months of the year the volume of foreign financing, both stocks and bonds, amounted to \$252,737,000, which compares with \$561,071,000 in the corresponding period a year ago, representing a drop of 55 per cent. Moreover, these figures, which are taken from the tabulations of the *Commercial and Financial Chronicle*, include for this year \$100,827,200 preferred stock of the American & Foreign Power Co., Inc., a domestic corporation, which issue is classified as foreign since the proceeds were to be used for expansion and development abroad. The sooner the domestic banking situation can be liquidated sufficiently to allow money rates to return to normal, the sooner we can expect a real bond market again and a resumption of foreign financing so necessary to a maintenance of our balance of exports.

The table on page 1254 shows the issues of \$5,000,000 or more offered during the month:

### The Outlook for Money

IRREGULARITY in the money market during the past month, coupled with a series of important developments, has obscured the probable trend of rates to a very considerable degree. An increase in the rediscount rates at some of the Federal Reserve Banks followed by the recommendation made by the Federal Advisory Council to the Federal Reserve Board calling for the establishment of a

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**T**HE 65th consecutive regular quarterly cash dividend of 87½ cents per share (on the new stock) was paid on May 15 to stockholders of record as of May 5, 1929.

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A list of products manufactured by the amalgamated companies together with copy of latest financial report can be obtained at brokers' offices or will be mailed to any address on application to the Corporation.

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6 per cent discount rate at eastern reserve banks made the money situation toward the end of May decidedly uncertain.

Bank reviews published during the month reflected more or less the effect of these developments upon opinion. There was little inclination to forecast but at the same time the prospect of a continuance of high rates for some time seemed to be expected.

A condensed view of the financial situation was given by the Guaranty Trust Company of New York as follows:

"Advances during the last fortnight in the rediscount rates of the Federal Reserve Banks of Minneapolis and San Francisco from 4½ to 5 per cent, making the latter rate uniform throughout the system, were followed on May 21 by a recommendation of the Federal Advisory Council to the Federal Reserve Board that any Reserve banks desiring to raise their rediscount rates from 5 to 6 per cent be permitted to do so. It is believed by some that the adoption of this recommendation would be quickly followed by rate advances in several centers where Reserve bank directors are believed to favor such a policy. The publication of the statement was followed by one of the sharpest breaks in stock prices ever experienced in a single day.

"Until this development occurred, the course of the stock market since the beginning of May had been irregular, with the volume of trading small in comparison with the totals of the latter part of 1928 and the early weeks of 1929. During the week ended May 22, brokers' borrowings in New York City declined \$45,000,000, after increasing steadily for four weeks. Total loans and investments of weekly reporting member banks of the Federal Reserve System now stand at nearly the lowest level recorded in a year, and the same is true with respect to the amount of Federal Reserve credit in use.

"The country's gold stock continues to increase. During the month of April the net gain amounted to nearly \$70,000,000, bringing the total for the year to date to about \$110,000,000. Further gains, chiefly through the release of gold previously earmarked for foreign account, have been reported this month."

An encouraging sign is the recovery of building operations, in the face of tight money conditions, which was pointed out by the Central Trust Company of Illinois, of Chicago, in its monthly bulletin as follows:

"The outstanding business event of the month of April was the complete comeback of building operations. Concern over the January and February decline in building permits issued, and in building contracts let, was not confined to contractors and building material men but the matter was given grave consideration in the highest financial circles. The decline was attributed to a tight money market; to an overbuilt condition; to a switching of interest from building securities to the stock market; and to numerous other causes. It is more than probable that the entire decline resulted from severe weather conditions."

## Bond Business

(Continued from page 1250)

speedy age, it is true, and information can be, and is sent from one end of the country to another in a few minutes. It is desirable to do the business as rapidly as possible as bonds are bought on a certain market and the distributor does not care to gamble. On the other hand, if investors were given more time to make up their minds whether they wanted the bonds or not, another serious problem of bond houses—maintenance of a secondary market—would be much less of a problem.

All types of investors are learning that the prices of their bonds should be constantly checked up. This has made the secondary market a much more important factor than it used to be. In too many cases it has not been properly provided for.

### "Bread and Butter"

**T**HE service that bond selling organizations render to the community is to assemble the capital which industry needs. Having assembled it, if the corporation employs it to pay wages and purchase consumer goods, a direct contribution to the country's prosperity has been made.

The usual conception of this sort of bond financing is represented by our industrial, public utility and railroad financing, when the loans are made directly to an operating company for expansion purposes. Refunding is just the "bread and butter" of the bond house. The corporation or the investor, one or the other benefits slightly perhaps, depending upon the relative money rates; but the bond house collects its commissions.

Let us group under one head several different classes of bond financing which while perfectly legitimate and also in the majority of cases sound enough, seem not quite so directly beneficial to the general welfare.

The Standard Statistics Company has just completed comparison of the January, 1929, public financing with that of 1925. We were interested to learn whether the tremendous increase in total volume—from \$524,000,000 in January, 1925, to \$1,300,000,000 in January, 1929, actually made more money available for the purchase of domestic consumer goods or services. This we regard as the primary function of security selling organizations.

We first deducted from both totals all financing for banks, insurance companies, investment trusts, holding and finance companies, as well as all foreign financing. These companies, generally speaking, do not buy domestic goods or services. An examination was then made of the remaining issues to determine in each case the purpose of the sale. Refinancing and merger or consolidation financing were called non-productive and deducted. The resulting figure for 1925 was \$684,000,000 while that for 1929 was \$878,000,000.

With an increase of over 162 per

cent in total financing our domestic productive corporation treasuries received only 30 per cent more "new money." The figures show that there was an increase of \$10 in what has been arbitrarily called "non-productive" sales for every \$1 increase in new productive capital.

Bonds to a total of \$1,164,000,000 were sold in the first three months of 1929 as against \$1,074,000,000 in 1925. According to this method of calculation bond sales added \$371,000,000 effective new money in 1929, against \$484,000,000 in 1925; a drop in this figure of \$113,000,000 in spite of a \$90,000,000 increase in total bond sales.

If our "productive" money theory is accepted, and it has not yet been challenged, then the 1929 record was \$200,000,000 worse than that of 1925. Such a situation may be sound. But it is one that should certainly be examined very carefully by everyone connected with the security selling business.

This writer refers, of course, to bond financing, which is done for those companies, whose avowed purpose is not the production of goods or services—holding companies and investment trusts. In the same category comes the merger and consolidation financing, which involves a bond issue as a major factor. Those who are buying the business do not or cannot otherwise complete the purchase without perhaps giving up control. That the general credit base has been added to by sales of bonds for these latter purposes, is certainly true. But whether the funds so raised will be used for constructive purposes is outside the knowledge of and beyond the control of the bond house.

Speaking in terms of domestic financing only, the outlook for growth in volume is not exactly encouraging. It would not be surprising if the 1929 volume of sales dropped as much as 20 per cent below the 1928 figures. The peak of bond sales was established mainly because of large scale refunding operations now largely at an end.

**T**HERE seem to be three distinct schools of financial thought at the moment. One group hopes to keep business as good as it is and in some manner withdraw what it regards as excessive credit from the stock market. Another group holds to the opinion that business must be hurt, and that soon, by sharply advancing money rates to avoid eventual disaster through stock market inflation.

The speculative element believes that the other two groups are greatly exaggerating the amount of credit that is being used for speculative purposes. This latter group claims that business is being financed through stock sales rather than loans. A large part of what the others call speculative credit, it believes is legitimate business financing.

Those who are interested in the bond business primarily, are not much concerned as to who is right in this argument. Their chief concern is when will this credit, which has gone outside of the bond business, again be available.



**O**NE of the important results of electricity's contribution to American industry is the economic development of the small town. By enabling manufacturers to find locations far removed from the congestion of cities, and by assuring them ample and reasonable power supply, the electric industry fosters better business and living conditions in these non-metropolitan centres, whose affairs constitute the backbone of the nation's prosperity.

The subsidiaries of the National Electric Power Company, which now furnish electricity in more than 1800 small communities in the Eastern United States, thus are offering a superior contribution to the economic health of the land.

## NATIONAL ELECTRIC POWER COMPANY

Unquestionably the Federal Reserve officials while not having full control of the credit situation are bound to influence it eventually. The time cannot be very far away, when the great majority of former bond customers will again turn to bonds for investment.

### A Year of Small Loans

**A** TOTAL of \$16,529,805 was loaned to 51,203 applicants in the first year of the operation of the personal loan service inaugurated in May, 1928, by the National City Bank of New York. The average loan was about \$320 per borrower and losses on these loans were described by the bank as "negligible."

Based on its first year's experience with this service the bank found that the average borrower is thirty years old, has been in the same position steadily for more than five years, earns \$2,755 a year, is married and has one child. Approximately 87 per cent of all applications received were approved.

More than 97 per cent of all deposits were made regularly and on less than 1 per cent was it necessary to initiate legal action in order to effect collection.

While the first year's operation of the personal loan service was without profit, as had been expected by the bank, the increasing volume of business gives promise for the development of the service.

### In Judging Collateral and Giving Investment Advice

**E**VERY year the functions of banks are tied up more and more closely with the Security business.

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### New Book

**PRINCIPLES OF MONEY AND BANKING.** By Russell Donald Kilborne, Ph.D., Professor of Banking and Finance, Dartmouth College. Published by the McGraw-Hill Book Co., New York. 616 pages. Price, \$5.00.

The second and revised edition of a work first published in 1927, designed primarily as a textbook but intended to be useful to other readers as well. Much new material has been incorporated in the revised edition, particularly in connection with banking operations and brokers' loans.

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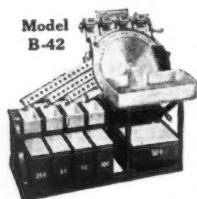
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## Banks Show Unusual Interest in Acceptances for Investment

**T**HE American bill market is rapidly acquiring independent strength, and purchases by banks throughout the country have almost offset the decline in the holdings of the Federal Reserve System according to the report of the Acceptance Committee at the Executive Council meeting of the American Bankers Association, held at Edgewater Park, Mississippi. The report follows:

"Since the last report of this Committee the acceptance method of financing, and the discount market have passed through the most important period in the fifteen years of acceptance usage in this country.

"For several months, bankers' acceptances have been subjected to a very severe test, occasioned by a season of high rates for money and commercial credit, an abnormal stock market situation, and a withdrawal of some of the support formerly given by the Federal Reserve banks.

"The results are very gratifying, proving the worth and practical advantage of bankers' acceptance credits, to the banks, commerce and industry, under most difficult conditions, and demonstrating the ability of the discount market to stand on its own feet.

### A Record Total

**"T**HE average outstanding volume for the year 1928 was \$1,073,260,065. On October 1 the total of outstanding acceptances was reported to be \$1,004,166,180. By November 30 the volume had increased to \$1,122,746,889, and on December 31 the highest total on record was reported as \$1,284,435,780.

"The total on March 30, after normal seasonal reductions since the turn of the year, was still at a high level the reports showing a volume of \$1,204,979,653, which was \$118,510,911 higher than the total for the end of March, 1928.

"The classification of acceptance credits as of March 30 show that \$360,162,237 covered imports, \$386,822,456 exports, \$16,949,928 domestic shipments, \$123,911,576 domestic warehouse credits, \$50,447,609 to create dollar exchange and \$266,685,845 for credits based on goods stored in or shipped between foreign countries.

"Of particular significance to American banking is the increasing use of dollar acceptance credits to finance our foreign trade. The credits of the important banks in this country are now readily negotiated in any part of the world. For financing the storage of goods in foreign countries or the shipments between foreign countries, dollar credits are now freely used.

### Phenomenal Strength

**"O**N March 31, 1927 the total of acceptances for this division of foreign trade financing amounted to

\$55,201,623, whereas on March 30, 1929, the total was \$266,685,847 an increase of \$211,000,000 in two years. Import and export acceptances combined, totalled \$605,724,334 at the end of March, 1927, which amount had been increased to \$746,984,693 on the corresponding date this year, an increase of more than \$141,000,000.

"During the year 1928 the volume of trade financed by bankers acceptances amounted to \$7,019,000,000 of which 36 per cent were for exports, 29 per cent imports, 16 per cent foreign storage and shipments, 13 per cent domestic storage and 6 per cent evenly divided between domestic shipments and dollar exchange. Approximately 51 per cent of the total foreign trade of the United States for the year 1928 was financed by acceptance credits.

"On December 12 the Federal Reserve Bank of New York announced its temporary withdrawal from the bill market as an active buyer of bills for its own account. Its holdings had shown a great increase all through the Autumn when the dealers were experiencing some difficulty in moving their heavy portfolios and on the date of the announcement Federal Reserve System's holdings of bills had reached the record total of \$494,000,000.

### Increased Distribution

**"A**GAIN, serious doubts were expressed as to the ability of the discount market to take care of itself without the support which it had for so many years received from the Federal Reserve banks.

"The bill holdings of the Federal Reserve System declined steadily during successive weeks until they now amount to only \$157,317,000 a reduction of more than \$336,000,000 in four months. During this same period the total volume of outstanding acceptances has shown a reduction of only \$80,000,000, thus indicating an increased distribution in the outside market of over \$250,000,000.

"A large part of this volume has been purchased by banks throughout the country, whose holdings are now believed to be in excess of \$300,000,000. At no previous time has there been such an interest in bankers acceptances for investment purposes. The characteristics of safety, liquidity and a high interest yield are appealing to bankers who have never before entered the bill market.

"Another factor contributing to the comparative ease with which over a billion and a quarter in bills is now being moved is the buying of dollar acceptances by foreign investors.

"Our task is to maintain the high reputation that has been secured for American dollar acceptances and to do everything we can to further the distribution of bills to investors in this country and abroad."

## Inheritance Tax

(Continued from page 1246)

Much red tape is avoided as the result of the adoption of the reciprocal law.

The tax authorities of some of the states have issued permits to corporations incorporated in their states authorizing them to accept an affidavit on a prescribed form from a legal representative of a decedent in lieu of a waiver. In this the trust officer recites that he is an executive officer of the trust company which is the executor of the estate of the decedent, whose legal residence was in that state, and that the affidavit is being made for the purpose of securing the transfer or delivery of the stock of the corporation mentioned. After it is executed in duplicate, both copies are filed with the transfer agent, together with the stock to be transferred and all other requirements for transfer.

Under this system it is possible to clear the way for the sale of securities within a few days.

Prior to 1929 the following twenty-three states were in the tax-free or reciprocal groups: Alabama, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Maine, Maryland, Mississippi, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont and Virginia.

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Next year it is believed that a few more states will join the reciprocal ranks and that ultimately the practice of multiple taxation of intangibles will be stamped out.

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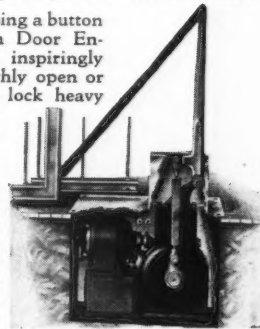
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| Yawman & Erbe Manufacturing Co.             | 1231       |
| York Safe & Lock Company                    | 1208       |

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# WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR and the READER

## "Can't Get the Directors to Approve"

"O! That board of directors of mine!" exclaimed one banker to another. "I never can get them to do anything; I put things up to them with lots of merit, plans that are for the benefit of the bank, but my plans stop there."

"What do you do?" asked the second banker. "Just tell them what you want to do?"

"Yes; I just give them the idea."

"Probably the trouble is with you and not with your board of directors," returned his friend. "Probably you give them a good idea but do not sufficiently develop



it and digest it for them. They should have your plan fully presented and fully worked out and what I suspect you give them is only a suggestion, leaving them to find out for themselves what it is all about.

"When I have an idea," he continued, "for the betterment of the business of the bank, I work it out fully and in detail in my own mind. I try to look at it from all points and especially to find out any defects and weaknesses in it, and when I am all ready to shoot it to the board of directors I don't shoot—just then."

"Every day there are some of our directors in the bank. After the idea has been worked out as nearly perfect as I can make it, I call to one of the directors as opportunity offers, sit him down at my desk and present my idea until I have sold it to him."

"Then I get another director, or two and go through the same process with them. By that time I have learned my story pretty well and have learned what, if any, are likely to be the objections from the board. By that time also I have two or three directors who are sold on the idea and want to see it adopted."

"After that I present my idea to the board and I have no complaint to make over their inability to see things. Stop blaming your board," he concluded. "Blame yourself for improperly presenting it when you do not get an idea across."

"Your ideas are probably good ideas and would get the approval of your directors if you would develop them to the nth degree and present them in a manner which radiated your full confidence that they would add to the profit and the safety of the bank!"

Sometimes it happens that the better the idea the harder it has to be sold.

## The July Journal

THERE will be two features of the July JOURNAL of special interest to those who contemplate attending the Annual Convention of the American Bankers Association which opens in San Francisco on Sept. 30.

One will be a sepia insert of beautiful views likely to be intriguing to eastern delegates many of whom will take advantage of the occasion to visit some of world wonder places of the West.

The other will be the JOURNAL cover, a reproduction of a painting based on the discovery of gold in California. In this painting Mr. de Maris is at his best, and whether one is going to the Convention this year, or is not going the picture will, nevertheless, make an appeal as a dramatic presentation of an event which cast its influence upon all of America.

But in this period of many changes in banking and the laws relating thereto more than the ordinary number of bankers should see the business possibilities of attending the San Francisco Convention, affording, as it will, opportunity for conference with many men confronted with identical problems.

It will be a splendid opportunity for the interchange of ideas, a worth-while opportunity to gather additional opinions and judgments on problems which must be solved.

## Wanted—A Range Finder

UNLESS it brings to the average banker something that will help him in the business of banking, then this periodical is not doing as good a job as it should. The periodical wants to do not only a good job, but a better job from month to month. It wants to give you more and more service.

So now that you have come to the end of the pages of the June issue, write us and tell us what your reaction is to the information you have found in the foregoing pages.

What are the articles that you like—and why?

What are the articles that you may not care for—and why?

Are there some banking subjects we do not have articles on that you would like to read about?

If so, put them into your letter too.

We are not looking for bouquets, for this is the month of June and everything is abloom, nor for brickbats, but what is desired is something that will help to serve as a range finder.



## Friend of the Wards

WE suspect that the public, especially in these days of mergers may occasionally have doubts as to the possibility of a trust company taking anything more than a perfunctory interest in its wards. They may doubt that a business institution can be expected to do much more than to take care of money, say what the wards may not do, and to pay bills.

It is good business to dispel that illusion, and the best way to dispel it is to give a service to wards over and above that which may be written into the records.

But how may such a service be rendered? The answer is found in the following paragraph from a letter written by Julius



C. Peter, vice-president, Detroit & Security Trust Company, Detroit, Mich.

"We have on the staff of our Business Relations Department Mrs. Van Baalen, who in addition to her sales work, acts as a friend and advisor to minor wards of the trust company, and women clients who need the tactful assistance which sometimes only a woman can give. She has done some very fine work on the human side, and we have given a certain amount of publicity to her efforts. This has resulted in most favorable comment, and has opened the eyes of a good many people who have been accustomed to think of a trust company as a cold and impersonal sort of institution."

"In the sort of work she is doing there is a great appeal to prospective clients."

With an institution, as with an individual, the small inconspicuous acts contribute largely to its good name, for reports of small acts often travel far and are more important factors in gaining good will than studied efforts and finely fashioned sentences.

If a man or an institution puts heart into its work the news of its motives will soon get around and it will be remembered when decisions are to be made.

## Affects Mergers

NO more important matter has ever been printed in the JOURNAL than the article on the Worcester County National Bank case by Judge Paton which will be found in this issue.

The article deals with the right of succession—a point upon which, it is believed some bank mergers have been held in abeyance, and it will exert an influence upon mergers that are to be brought about in the future. For bankers of every class it is a document of real importance.

# PROTECTIVE SECTION AMERICAN BANKERS ASSOCIATION JOURNAL

*Strangers Are Not Always Crooks, But Crooks  
Are Usually Strangers*

## Crime Prevention Profitable

By JAMES E. BAUM

Deputy Manager, Protective Department

**T**HE records of the Protective Department show a sameness of method through which banks have been repeatedly victimized and sometimes completely looted through criminal acts.

For years, the monthly warnings of the Protective Committee and its semi-annual reports to the Executive Council have reiterated the methods employed by bank burglars, bandits, forgers, sneak thieves and swindlers. Preventive measures have been repeatedly presented to defeat such criminals. The meanderings of criminals are varied. They are not confined to state lines and cannot be anticipated, but in general bank crooks still pursue the same old methods which characterized the criminal operations against banks reported by the first Protective Committee of this Association in 1891. And the present year is no exception.

During the six months ending February 28, member banks reported for investigation 283 cases of forgery, 80 holdup robberies, 19 burglaries, 6 sneak thefts and 5 mortgage swindles. Eight out of every ten forgery losses resulted from the payment of checks bearing forged signatures of bank customers as makers. Many of these forgeries could have been detected by comparison with the genuine signatures. Since Sept. 1 member banks also reported 114 losses which were preventable and therefore fell outside the rules of the Protective Committee. These

losses invariably resulted from advancing funds on uncollected items. Many of them involved worthless or bogus checks or drafts returned marked "no account" or they were drawn against fictitious firms or banks. Because they are preventable by the exercise of reasonable care, the Protective Committee does not authorize the investigation of such losses at the expense of the Association.

The great volume of forgeries of this type reported for investigation in 1921 caused the Association to adopt more equitable and constructive means of regulating the services of the Protective Department. Distinction was made between forgeries which are preventable by the exercise of reasonable care and those which are apparently unpreventable in the regular conduct of banking. Rather than place a premium upon negligence by taking up cases that might easily have been prevented, the Committee sought to encourage sound banking practice. For this large national organization, comprising nearly 20,000 banks, to follow any other system would, for the benefit of a small and careless minority, penalize the vast majority

of our members who, by the exercise of due diligence, carry out the practice of the Association's policy of prevention.

The Association decided that its protective work would be more effective if stress were laid on prevention of loss as contrasted to detection. The most effective means  
(Continued on page 2)

### Contents Noted by

President \_\_\_\_\_  
Vice-President \_\_\_\_\_  
Cashier \_\_\_\_\_  
Assistant Cashier \_\_\_\_\_  
Paying Teller \_\_\_\_\_  
Receiving Teller \_\_\_\_\_  
Guard \_\_\_\_\_

June, 1929

Vol. XXI No. 12

## Identifications Wanted

**T**HE Peoples Savings Bank and Trust Company of Pine Bluff, Ark., was held up during the noon hour on April 22 by four bandits who covered employees and customers with guns and scooped up all the cash in the teller's cages. In addition, they secured blank A. B. A. travelers cheques issued by the Bankers Trust Company, also travelers cheques of the National City Company and the American Express Company, of New York, numbered and in denominations as follows:

Bankers Trust Company, New York:

G5478460 to 509—\$10.00  
E3769649 to 669—20.00  
B5487936 to 949—50.00



Bob Robbins

National City Company, New York:

A2114144 to 210—\$10.00  
B1628885 to 550—20.00  
C616752 to 800—50.00  
D101080 to 090—100.00  
D266731 to 780—100.00

American Express Company:

F1491055 to 079—\$10.00



Charles Young

H6035850 to 949—10.00  
H8996324 to 339—20.00  
G3841980 to 2029—20.00  
G9502100 to 129—20.00  
C6997170 to 219—50.00  
D1221780 to 799—100.00

On April 27, GEORGE TERRY (3666), alias Al Stein; BOB ROBBINS (3667), alias Robert Underwood and CHARLES YOUNG (3668), alias George Johnson, whose photographs are reproduced, were arrested while making a tour of New Orleans night clubs and spending large sums of money. On their persons were found money belts containing new bills bearing serial numbers recently issued to the Pine Bluff bank also a number of gold coins probably stolen from the bank but no trace was found of any of the travelers cheques. These three criminals have been ex-

tradited to Pine Bluff and are now awaiting trial.

There have been a number of successful holdups in the vicinity of Pine Bluff, and it is possible that employees of other banks attacked can identify the pictures of the three bandits. In the event an identification is made, it is requested that detainer warrants be filed at Pine Bluff, Ark., and our agents notified. Terry is 23 years of age, 5 feet 6 inches tall, weighs 117 pounds;



George Terry

slim build; has sallow complexion, hazel gray eyes and dark chestnut hair. Robbins is 17 years of age, 5 feet 7 inches tall, weighs 130 pounds; slim build; has fair complexion, dark chestnut hair and brown eyes. Young is 23 years of age, 5 feet 11½ inches tall, weighs 145 pounds; slim build; has fair complexion, blue eyes and light blond hair.

## Crime Prevention

(Continued from page 1)

of preventing crime is to encourage the banker himself to avoid contributory negligence. Its was therefore concluded that the Association should not assume the expense of the investigation of criminals where losses are incurred through new accounts opened without proper investigation or in cashing checks for strangers. On this point President McAdams, in his report to the Council in 1922, declared that:

"If the Association should handle cases of this character, it could with equal propriety investigate losses which are the outgrowth of bad loans resulting from lack of proper information as to the value of collateral or the strength of endorsements. This action on the part of your Protective Committee," Mr. McAdams continued, "has already had a most beneficial effect and, through banks realizing the responsibility for such cases was entirely their own, has resulted in many of them adopting rules of operation which are effectively protecting them against loss."

Exceptional cases have been reported where a number of banks have sustained preventable losses in spite of the

fact that warnings against the schemes employed have been repeatedly broadcast by the Association. The investigation of such cases, however, reveals the fact that banks, victimized as a result of their own carelessness, are seldom able either to describe or identify a logical suspect when apprehended. Positive identifications are essential in criminal prosecutions. Failure to identify prisoners against whom there is strong circumstantial evidence is our chief obstacle in bringing such investigations to successful conclusion. Your committee therefore holds as sound its rules which are the result of practical experience in handling thousands of cases.

During the current fiscal year our detective agents caused the arrest of 102 of the 181 bank criminals apprehended. Seventy-three of these have been convicted and are imprisoned. There were also eighty-eight convictions of prisoners arrested prior to the current fiscal year. Among those caught were a score of notorious bank criminals whose skill and wide field of opera-

tion required for their apprehension a national system of investigation such as that available to members of the American Bankers Association.

Aside from insurance against risks which are common to other lines of business and not peculiar to banking, the Association advocates insurance protection only for indemnity of financial loss through dishonest or criminal acts, for such is the limit of the underwriters' liability. Our investigations, however, show that insurance continues to represent the major portion of the protective program of many banks reporting losses, particularly those suffering daylight holdup. As a result, bank insurance rates are rising and will go higher unless bankers adopt other modern means of protection and exercise the same care to prevent loss that characterize criminal attacks upon them.

Adequate means of prevention will stop the herding of bank officers and employees into their vaults, but insurance will never restore their lives when they are smothered.

# Detainer Warrants Wanted

**GEORGE SAM DAVISAPOULAS** (3685), alias George Davis, a Greek, who was paroled from San Quentin Prison, has been rearrested by the Los Angeles authorities on new charges and returned to finish serving his former sentence. At the time of his arrest he



*George S. Davisapoulas*

confessed that he had operated in New York, Chicago and other cities but stated he was unable to give any definite information as to amounts or banks defrauded. We are therefore publishing his picture and description and suggest that bankers recognizing Davis as a person who defrauded them file detainer warrants with the warden of San Quentin Prison, California. The operator is about 25 years of age, 5 feet 9 inches tall, weighs 140 pounds; has brown eyes, dark complexion, is smooth shaven and has black hair.

The arrest of **CHARLES M. GRIMMETT** (3687) by the Seattle Police Department on April 3, 1929, bears out the contention that a forger seldom reforms. Our records show that late in 1918 this operator under the alias R. L. Jones was arrested after he had attempted to defraud a member bank in The Dalles, Ore. He was convicted in June, 1919,



*Charles M. Grimmett*

but paroled in the custody of his father with instructions to report at frequent intervals to a probation officer.

A search of our records reveals no crime with which we can definitely connect this operator for the ensuing ten years. It is possible that he has operated, and we are therefore reproducing his photograph and description. Grimmett is 29 years of age, 5 feet 9 inches tall, weighs 170 pounds; has

sallow complexion, chestnut hair and brown eyes. Fingerprint classification: 9/2 U/Ra 6/5. Members recognizing Grimmatt as a person who defrauded them, should have detainer warrants filed with the Seattle Police Department and notify our agents' nearest office.

**EDWARD LINDSEY** (3614), alias James H. Watson who contrived to secure sufficient funds from banks and individuals to travel from Baltimore, Md., to the Pacific Coast, is about to enjoy a vacation at the expense of the state of Washington. He was apprehended by our agents at Seattle on April 27.

Lindsey drew bogus certified checks on numerous banks by securing a check book and inserting bogus certifications with a rubber stamp. The Pioneer Trust Company of Kansas City, Mo., and the Park Savings Bank, Washington, D. C., were two of the banks drawn on. Previous articles regarding Lindsey's operations appear on page 6 of both the March and April, 1929, issues of this Section. His fingerprints reveal that he has been incarcerated in several penal



*Edward Lindsey*

institutions, one term having been served in Wandsworth Prison, London, England. We are reproducing Lindsey's photograph, and when he is identified, detainer warrants should be forwarded to the Chief of Police at Seattle, Wash. The prisoner is 32 years of age, 5 feet 4½ inches tall, weighs 109 pounds; has medium complexion, brown eyes, dark brown hair and smooth face. He wears glasses with tortoise-shell rims. Fingerprint classification: 1/1 U/U 000/000 18/17.

In the latter part of April, 1929, the police of North Bergen, N. J., took into custody one **FRANCIS J. MACCANO** (3688), alias Francis J. March, H. B. Johnson, S. Williams, George W. Buckley, Charles W. Silverstein, etc. This operator has defrauded banks and merchants in New York, New Jersey and New England cities during the past few years. In 1925 he was sentenced to three years in the Federal Penitentiary in Atlanta on a charge of using the mails to defraud, but being a model prisoner his sentence was considerably shortened.

Maccano usually represented himself as the proprietor of, or connected with, a fictitious electric company, and had no hesitation in using friends or acquaintances to further his purpose to defraud. We are reproducing a photograph of this man, who is between 25



*Francis J. Maccano*

and 30 years of age, 5 feet 7 inches tall, weighs 130 pounds; clean shaven, has light hair and complexion.

We are advised of the arrest of **HENRY C. O'DELL** (3689) at Shreveport, La., and his return to Tulsa, Okla., for trial on a charge of forgery. Using the names Theron Boomer, W. C. Cordell, Thomas P. Henry, etc., this fellow has been operating against banks and merchants for the past five years. He was arrested by the Washington police in the early part of 1925 and turned over to the Postal authorities, who filed charges of tampering with the U. S. mails. At the time of his arrest there were found in his possession about fifty letters stolen from the mails.

O'Dell is said to be possessed of a rather brilliant mind along some lines, but indications are that he may be demented on other subjects. However, he was dangerous against banks, and in order that he may be kept in a safe place for as long as possible, we are publish-



*Henry C. O'Dell*

ing his picture and description with a request that any members identifying him as a person who defrauded them have their local police file detainer warrants with the authorities at Tulsa, Okla., and notify our agents' nearest office. O'Dell is about 35 years of age, 5 feet 8½ inches tall, weighs 145 pounds; slim build; has brown hair, brown eyes and medium complexion.



J. B. Saunders

On page 5 of the September, 1928, Protective Section, appeared the last of a number of warnings regarding J. B. SAUNDERS (2370), a man of many aliases, which include S. E. Clayton, Charles A. Williamson, Charles Henry Hamilton, etc., whose activities have hurt the banking fraternity since 1916. This swindler's specialty was the negotiation of bogus cashiers' checks purporting to be issued by non-existent banks. He frequently used the name, Merchants National Bank, Farwell, Texas, on his paper.

We are glad to report his arrest on April 19 in St. Louis, Mo., where he attempted to have additional checks printed and offered the printer double the usual price for quick work. The suspicions of the printer were aroused, and he notified the police, who arrested Saunders when he returned for the checks. In the car in which he was traveling were found cashiers' checks on the Citizens National Bank, Sparta, Ill., also a non-existent institution, checks on the Farwell bank already made out in various amounts and signed E. M. Collins, Cashier, also several letters type-written on the letterheads of these banks, addressed to himself and pertaining to mortgages and cash transactions between himself and various supposed officers of the banks.

Other checks purporting to be issued by the Farmers and Merchants National Bank of Dodge City, Kan., drawn on the Liberty National Bank of New York, signed J. E. Smith, Cashier, in amounts totaling over \$14,000, checks on the Citizens Bank and Trust Company, Tampa, Fla., Merchants Bank and Trust Company, Washington, D. C., and Bank of Osage County, Lynn, Mo., were also found along with securities and other papers made out to various names as follows:

\$1,000 gold bond No. 49,816, Rock Island and Pacific Railroad, coupon attached.  
1000 shares Union Oil Company, Oleum, Cal., issued to George F. Reed, serial No. 735,924—and on the same company there were found 2000 shares serial No. 1,534,699, issued to George M. Pierce.  
2000 shares No. 1,534,693, to George M. Pierce.  
5000 shares serial No. 567,371, issued to C. M. Emerson.  
1000 shares serial No. 735,924, issued to A. L. Pierce.  
1000 shares serial No. 735,924, issued to Clarence Walsh and other shares of the same company in the name of William M. Price, C. P. Emerson, H. C. Parker, C. F. Daniels, E. W. Lorimer. There was also found a cashiers' check on the Poudre Valley National Bank, Ft. Collins, Colo., payable to C. H. Hamilton, No. 2648 in the amount of \$750.  
A deposit slip for the Citizens National Bank of Jasper, Jasper, Texas, showing a de-

posit made by George M. Pierce of April 9, 1927, in the amount of \$140,000.

We are advised that Saunders has been turned over to the Boston authorities, and detainer warrants should be filed with the Boston, Mass., police. Saunders is 50 years of age, 5 feet 6½ inches tall, weighing 165 pounds; medium build; has medium chestnut hair, turning gray, ruddy complexion, and wears shell-rimmed glasses.

ESTELLE WILEY (3690), alias Mrs. Paul K. Smith, Jr., is again in the toils of the law, having been apprehended during April at Huntington, W. Va. Warnings regarding this woman appeared on page 7 of the November, 1926, page 4 of the January, 1928, and page 6 of the February, 1928, issues of this Section. Our records show that she and her husband were arrested on March 22, 1927, at Bloomington, Ill., but apparent-



Estelle Wiley

ly she was not vigorously prosecuted as she was again arrested on Nov. 26, 1927, at Long Beach, Cal. We are reproducing her picture, taken at the time of her arrest in Long Beach and should she be identified as having defrauded any bank, it is requested that detainer warrants be forwarded to the Chief of Police of Huntington, W. Va. Her description follows: 22 years of age, 5 feet 7 inches tall, weighing 104 pounds; has dark brown hair and fair complexion.

RUTH P. GREY (3686), who negotiated a large amount of worthless paper in Minneapolis, is under arrest at Aberdeen, S. D. While in Minneapolis she opened an account in one of the local banks with a worthless check in the amount of \$1,500 drawn on a Chicago bank. She stated her husband was connected with a large Chicago chemical company which intended opening a branch office in Minneapolis, and claimed she was an advance agent for an advertising concern. She was informed that her check would be accepted for collection only, but was given a check book, and immediately began to draw against the uncollected funds by cashing checks with various merchants. Any information regarding the previous activities of this woman should be immediately communicated to our agents. She is 35 years of age, 5 feet 6 inches tall, medium build and has bleached blonde hair. While in Minneapolis she wore dark clothes and a dark coat with fur trimming.



Isidore Weisbrot

ISIDORE WEISBROT (3691), alias Weisbret, was picked up for investigation by the New York Police Department, and through the cooperation of our agents has been identified in connection with a forgery through which a New York bank was defrauded in 1927. As it is probable this operator has victimized other banks since then, we are reproducing his picture and request any members recognizing him as a person who defrauded them to communicate with our agents in New York. Weisbrot is 48 years of age, 5 feet 9 inches tall, weighing 161 pounds; medium build; has medium chestnut hair, blue eyes and is an Austrian Jew.

As a result of the warning regarding LEONARD C. NELSON (2304), which appeared in the January, 1929, Protective Section, we have been advised of his arrest under the name of Leonard C. Nash in St. Louis, Mo. Arrangements are being made to have him returned to New York City, and warrants charging violation of parole, as well as other crimes, will be filed against him. Members are requested to refer to the picture published in our January issue and communicate with our agents in New York if Nelson is recognized as having defrauded them.

## Fake Certifications

C. C. McADAMS (3703), alias C. C. Davidson, has been securing cash from unsuspecting victims for the past several years on bogus certified checks drawn on the Peoples National Bank, Ellwood City, Pa. In many of his transactions the swindler has posed as Mr. C. C. Davidson, who is reported to be a reputable citizen of Ellwood City. While we have no record of any bank having been defrauded, members, particularly in New York, Boston and Philadelphia, are urged to be on the alert for the appearance of McAdams' fake certified checks. If one of his frauds can be discovered within a short time after its commission, it should result in an arrest and the end of McAdams' check passing career.

C. E. WHITE (3708) is distributing bogus certified checks in Solomon, Kan., and vicinity, which are drawn on the Industrial State Bank of Kansas City, Kan. They are regular blank checks of the Industrial State Bank, but the certification stamp is evidently hand-made and a crude piece of work.

## Montana Justice



Herbert Gray

**A**N unusual and striking example of the celerity, certainty and finality necessary in our criminal procedure, following prompt and efficient police work, was furnished by Montana authorities after the holdup of the Fairview State Bank at Fairview, Mont., on May 2, 1929. Two men entered the bank, and after forcing employees and customers



O. T. Gray

to lie on the floor, escaped in a car driven by a confederate with \$4,592.80 in cash. A fourth bandit assisted the others in fleeing from Fairview.

When one of our agents from Minneapolis arrived on the ground he found that, through the good work of the sheriffs of Richland and Dawson Counties, HERBERT GRAY (3669), O. T. GRAY (3670), ARTHUR BAKER (3671) and STEWART GREY (3672) had already been arrested and were charged with this crime. The first two named had been identified, and cooperating with local officers, our representative secured confessions from all four, which resulted in their entering pleas of guilty.

On May 10, eight days after the holdup, three of the bandits received the longest sentences ever passed on a bank robbery charge in the State of Montana. O. T. Gray, Herbert Gray and Stewart Grey were each sentenced to serve 40 years and Arthur Baker 20 years in the State Penitentiary.

In passing sentence the judge of the district court declared he wanted to serve notice on the criminally inclined element that bank robbery is an unprofitable business; that lawful industries were welcome in the eastern part of Montana, but this was one class of business that was not welcome.

Photographs of the four criminals are reproduced and may be recognized by



Arthur Baker

other members as being responsible for attacks upon them. While the sentences they are now serving should insure the safety of all banks from their further activities for many years, if they are identified with other crimes detainer warrants should be promptly filed against them with the warden of the Montana State Penitentiary at Deer Lodge.



Stewart Grey

## Beating Banditry in Ohio

**O**N Feb. 2 the Collingwood Branch of the Ohio Savings Bank and Trust Company, Toledo, Ohio, was held up by a man who entered the bank about 10:30 a. m. Through the teller's window he pushed a note, which read, "Hand all your 5-10-20's to me and don't be slow,"



Thomas R. Dawson

at the same time flourishing a revolver. The teller obeyed the command and turned over \$1,500 to the bandit, who made his getaway in a car parked nearby. Fortunately the license number was observed by a bank employee, and THOMAS R. DAWSON (3673), alias David Thompson, was arrested, charged with the crime.

A second attack against the same branch bank on May 14, 1929, also led to disastrous results for the criminal.

In this instance HARRY BEEBE (3674), alias Harry Clayton, arrived at the bank before the doors had been opened for business. He knocked at the door, and the manager looked out to see what appeared to be a police badge. Believing he was a police officer, the manager opened the door and was told by Beebe that he wished to "examine the burglar alarm system." He walked with the manager back of the cages, and when all employees were within his view he herded them into the vault at the point of a revolver, threatening that anybody who moved within the next fifteen minutes would be killed.

When the bank employees heard the outside door close, they rushed out, Mr. Albert Stitsler securing a revolver. He commandeered an automobile and gave chase, firing at the bandit's car. One of Stitsler's bullets struck the bandit on the left side of the head, just back of the left ear, and came out through the corner of his left eye.

In spite of his wound, the bandit continued to drive on, outdistanced his pursuers and reached his home. Police officers passing by noticed blood on the automobile, and on entering the house they found \$5,000 scattered on the table and floor. Beebe and a woman companion were arrested. One of the detec-

tives, noticing that the woman limped, decided she might have a wooden leg. A police matron later proved this to be a fact. Further examination revealed that the wooden leg was hollow enough to hold \$1,230 of the funds stolen from the bank.



Harry Beebe

Beebe also confessed to participation in the holdup of five different banks, three in Louisville and one each in St. Louis and Ferguson, Mo. Our records of the Ferguson holdup show he was tried, convicted and received a sentence of seven years, but that he was then released on bond, which was forfeited. This bandit was first called to our attention early in 1919, when he was implicated in the holdup of the Teutopolis State Bank, Teutopolis, Ill. In June of

that year he and his companion, CLEVELY BLISS (3675), were sentenced to the Southern Illinois Penitentiary at Chester for an indeterminate sentence.

We are publishing the photographs and descriptions of Dawson and Beebe to facilitate their identification by any other bankers they may have robbed. Members recognizing either of them as "wanted" should have detainer warrants filed with the police of Toledo, Ohio, and notify our agents' nearest office. Dawson is 25 years of age, 5 feet 9 inches tall, weighing 148 pounds; slim build; has light chestnut hair, blue eyes and light complexion. Fingerprint classifications: 19/3 I/MM 12/7. Beebe is 39 years of age, 5 feet, 9 inches tall, weighing 230 pounds; stout build; has dark chestnut hair, blue eyes and fair complexion.

### Sneak Thieves Active



William Downey

THE activities of the gang of sneak thieves warned against in the March and April issues of this Section have continued with an amazing degree of success. Since publication of the April issue we have had the picture of WILLIAM DOWNEY (3681), alias Edward or William Clark, identified as a man observed in a Cincinnati bank before it was robbed.

Downey is an advance agent or scout of the gang, apparently gets the "layout" of the bank and reports on the possibilities of a successful theft. Our records on Downey go back to 1912, and while arrested on numerous occasions, he has seldom been sentenced due to the difficulty in making a positive identification. His face, however, is so well known to police throughout the country that it is highly probable he does not appear in the bank at the time of the actual theft.

The most recent case reported and identified as the work of this particular gang differed slightly in method of operation from the others recorded. The last bank victimized by this gang has a Bradstreets mercantile directory placed for the convenience of its customers in the front of the bank. Adjoining the table on which this directory is placed is a desk occupied by a stenographer who has charge of the listing of bonds and coupons. While two envelopes containing bond coupons were in the stenographer's desk, she was induced to leave for another part of the bank, and when the registered mail was being checked up to go to the post office, it was found that the two envelopes were missing. The stenographer had previously ob-

served two men looking through the window of the bank, and noticed these same two men were apparently referring to the directory when she left her desk. The young lady is unable to identify any of the published pictures of this gang and states that both the men she observed were about 20 years of age, medium build, smooth shaven and wore dark clothes. We are reproducing a picture of Downey, alias Clark, who is 37 years of age, 5 feet 7 or 8 inches tall, weighs 145 pounds; has gray hair and light gray eyes.

### Fruits of Diplomacy

USING the name of T. THEW HOUGHTON (3680) and posing as a stepson of former United States Ambassador to Great Britain, a forger recently succeeded in victimizing a Detroit bank. He was introduced by one of the bank's customers and had in his possession a passbook and numerous other credentials which apparently established his identity as a stepson of Ambassador Houghton. He claimed to be contemplating a trip to the Orient and desired to make arrangements for the establishment of travelers' letters of credit in his favor. Presenting several checks drawn on the Crocker-First National Bank at San Francisco, where funds for his use had supposedly been transferred by the Security First National Bank of Los Angeles, he requested the Detroit

*T. Thew Houghton.*

bank to forward them via air mail and have their San Francisco correspondent wire fate.

Returning to the bank before the San Francisco checks had cleared, he requested \$200 in A. B. A. travelers' cheques, for which he gave his check. The San Francisco items were returned marked "No Account."

Member banks in New York and Jersey City especially are warned to be on the alert for this operator as he recently cashed a travelers' cheque in that vicinity. A specimen of the operator's handwriting is reproduced, and his description follows: 24 years of age, 5 feet 7 inches tall, weighs 140 pounds; is smooth shaven, has dark wavy hair, and when last seen wore a dark blue suit, but did not wear a hat.

MRS. CLARA WHITTAKER (3709), alias Mrs. Dunn, is drawing worthless checks on the Farmers State Bank of Hillside, Kan., signed Ed J. Dunn or George A. Brehm. They are in the amount of \$3.75 and have been cashed in towns in Oklahoma and Kansas, evidently at the stores of merchants. Her description is not available, but banks receiving such checks on deposit can render a service to their depositors and probably effect the arrest of the operator if they act promptly.

### Persistent Greek Scores Again

JAMES ANDREUS (2438), alias John Stratos, etc., whose method of operation was last described on page 3 of the March, 1929, issue of this Section, was recently reported from Haverhill, Mass., where he defrauded several banks through the negotiation of forged and worthless checks. Andreus attempted to open an account at a bank in Haverhill with a check drawn on the Harvard Trust Company, Cambridge, Mass. The Haverhill bank refused to accept this check as an initial deposit, but this veteran crook later returned, apparently having had the check indorsed by a local Greek, the proprietor of a cigar store. The bank accepted this check for collection only.

Undaunted, Andreus returned to the bank and deposited another check. It was ostensibly signed by the owner of a local hotel, from whom he said he intended renting a store. Still later in the same day Andreus presented a check signed by himself, payable to cash and drawn in an amount which was \$10 less than the check which bore the forged signature of the local hotel proprietor. The teller, observing that the hotel check, which was apparently bona fide, was for a larger amount than the operator desired to withdraw, yielded and gave him the full amount.

Shortly after the operator left the bank for the last time, advice was re-



James Andreus

ceived from the Harvard Trust Company that the check first deposited was being returned marked "No Account." The cigar store proprietor, who had apparently indorsed the check, declared his indorsement was a forgery, but he remembered having signed an order book for a man answering the description of the operator, who had represented himself as a salesman for a cigarette company.

We again reproduce the picture of Andreus and reiterate that readers of this Section need have no hesitation in causing his arrest, as numerous warrants for his arrest are in existence in various places. Andreus is 42 years of age, 5 feet 5 inches tall, weighs 150 pounds; has brown eyes, black hair gray on the sides, short stocky build, dark complexion and is a very neat dresser. Fingerprint classification: 1/1 A/Aa 12.

## Stolen Bonds

WE are publishing below a list of bonds which were stolen from the First National Bank, McClure, Pa., when that bank was burglarized on

November 16, 1926. Any information concerning them should be communicated to our agents' nearest office or the American Bankers Association.

| Kind of Bond   | Rate  | Date      | Number        | Amount  |
|--|-------|-----------|---------------|---------|
| Kingdom of Italy Ex.                                   | 7     | 1951      | D2862-3-4-5-6 | \$2,500 |
| Kingdom of Italy Ex.                                   | 7     | 1951      | M49830        | 1,000   |
| Kingdom of Italy Ex.                                   | 7     | 1951      | M84226        | 1,000   |
| U. S. Brazil.  | 8     | 1941      | D788          | 500     |
| U. S. Brazil.  | 8     | 1941      | D2528         | 500     |
| U. S. Brazil.  | 8     | 1941      | D1135         | 500     |
| U. S. Brazil.  | 8     | 1941      | D1683         | 500     |
| U. S. Brazil.  | 8     | 1941      | D3330         | 500     |
| U. S. Brazil.  | 7     | 1952      | D935          | 500     |
| Japanese Government.                                   | 6 1/2 | 1954      | D7100         | 500     |
| Japanese Government.                                   | 6 1/2 | 1954      | C2133-4-5-6   | 400     |
| Japanese Government.                                   | 6 1/2 | 1954      | D9880         | 500     |
| Japanese Government.                                   | 6 1/2 | 1954      | D1544         | 500     |
| Japanese Government.                                   | 6 1/2 | 1954      | D8953         | 500     |
| Japanese Government.                                   | 6 1/2 | 1954      | M46384        | 1,000   |
| Argentine Gov. Ex.                                     | 6     | 1957      | M34630-1-2    | 3,000   |
| Argentine Gov. Ex.                                     | 6     | 1957      | D3525-6       | 1,000   |
| Argentine Gov. Ex.                                     | 6     | 1957      | D1015         | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1944      | 37            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1945      | 39            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1945      | 40            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1946      | 41            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1947      | 42            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1948      | 45            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1949      | 47            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1949      | 48            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1950      | 49            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1951      | 51            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1952      | 53            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1952      | 54            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1953      | 55            | 500     |
| Snyder Co. Penna.                                      | 4 1/2 | 1954      | 57            | 500     |
| V. W. Mills.   | 6     | 1927      | 72            | 500     |
| V. W. Mills.   | 6     | 1927      | 73            | 500     |
| Penn. R.R. Co.   | 5     | 1964      | 21899-0       | 2,000   |
| Penn. R.R. Co.   | 5     | 1964      | 40877         | 1,000   |
| Rep. of Cuba.  | 5 1/2 | 1953      | 47347         | 1,000   |
| B. & O. R.R. Co. So. Div.                              | 5     | 1950      | M32744        | 1,000   |
| Province of Ont. Ser. N.                               | 5     | 1926      | 1045-6        | 2,000   |
| Erie R.R. Co. Eq. Trust Series K.K.                    | 6     | 1937      | 1317          | 1,000   |
| Can. Pac. R.R. C. Eq.                                  | 6     | 1931      | 10674         | 1,000   |
| Kingdom of Belgium, Ex.                                | 7     | Int. Cer. | D1957         | 500     |
| F. H. Smith Co.  | 7     | 1932      | 411-412       | 200     |
| Bethlehem Steel Ser. A. Cons.                          |       |           |               |         |
| Mortgage   | 6     | 1948      | 38127-8-9-30  | 4,000   |
| Swedish Government.                                    | 5 1/2 | 1954      | M22088        | 1,000   |
| Pac. Gas and Elect. Co. Ser. C. 1st and Ref. Mortgage. | 5 1/2 | 1952      | M5487         | 1,000   |
| U. S. Brazil.  | 7     | 1952      | D1084         | 500     |
| Republic of Bolivia.                                   | 8     | 1947      | D1850         | 500     |
| City of Wildwood, N. J. Water Bond                     | 5     | 1945      | 429           | 1,000   |
| West Chester Biltmore.                                 | 6     | ...       | M2053         | 1,000   |
| West Chester Biltmore.                                 | 6     | ...       | D647          | 500     |
| Canton Phythian Castle Co.                             | 6     | ...       | 174           | 1,000   |
| Canton Phythian Castle Co.                             | 6     | ...       | 77            | 1,000   |
| Canton Phythian Castle Co.                             | 6     | ...       | 102           | 1,000   |
| Cleveland Dis. Col. Trust.                             | 6     | ...       | M3343         | 1,000   |
| Cleveland Dis. Col. Trust.                             | 6     | ...       | D922          | 500     |
| Cleveland Dis. Col. Trust.                             | 6     | ...       | D857          | 500     |
| Cleveland Dis. Col. Trust.                             | 6     | ...       | D856          | 500     |
| Wade Park Manor.                                       | 6     | ...       | M1231         | 1,000   |

(3676), LOUIS BERNE (3677), IRVING COHEN (3678) and BERNARD SAMUELS (3679), was as follows: The operators rented office space in an up-town building and then telephoned a brokerage house, ordering bank stocks at current market quotations. The brokerage house booked the order and sent a boy up to get a written confirmation of the order. Later in the day a boy would also deliver the stock and receive a check made payable to the brokerage concern for the exact amount and bearing the forged certification stamp of the bank on which it was drawn.

All the checks negotiated by this gang were in five figures, and they totaled more than \$50,000. The checks were returned marked "No Account" and the bank stock certificates were placed as collateral for loans.

Samuels is about 31 years of age, 5 feet 9 inches tall, weighing 160 pounds; has light brown hair and small pointed mustache of the same color. Cohen is 30 years of age, 5 feet 9 inches tall, weighing 165 pounds; has dark complexion and round face. Both operators are of Jewish appearance. No description of Berne or Gordon is available, and it is possible that these are aliases of Cohen and Samuels.

## Warnings

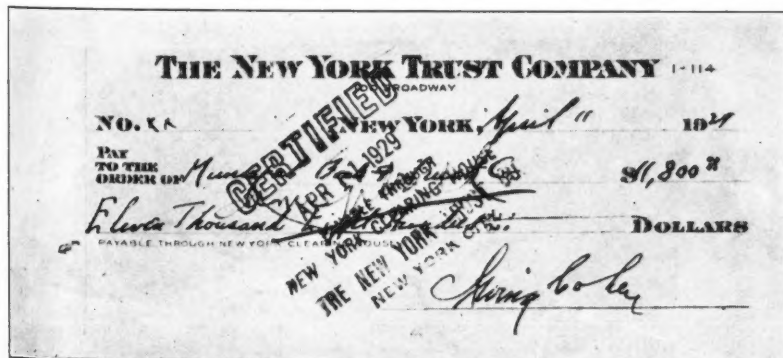
A WARRANT for the arrest of A. BORDEN (3692) is held by the Sheriff of Union County, El Dorado, Ark. Prior to September, 1928, Borden was a reputable merchant in Smackover, Ark., dealing in metal and scrap iron. However, on the day before he disappeared last September, he victimized a local bank through a draft in the amount of \$750, which was subsequently dishonored by the drawee. Borden is said to be well known to scrap iron dealers in Chicago and St. Louis and may be engaged in that business at the present time. Any information regarding him should be immediately communicated to the Sheriff of Union County, Ark.

M. L. DAVIS (3693), alias Walter Davis, George Myers, M. Larkin, G. L. Parker, etc., has defrauded banks and merchants in Pittsburgh, Erie, Buffalo and Jamestown by inducing them to cash bogus checks signed with one of the above names. Apparently he finds no trouble in securing a check book from one or more of the banks in the territory where he intends to work, and then proceeds to turn the worthless paper into cash. The operator is 40 years of age, 5 feet 9 or 10 inches tall, weighs 150 pounds; has tanned, slightly florid complexion. Members should have no cause to worry regarding financial losses from operators of this type if they will insist on their employees following the principles of sound banking practice. Call their attention to the motto so often found on the front page of this Section, "Strangers are not always crooks, but crooks are usually strangers."

## Forgers Buy Bank Shares

A NUMBER of brokerage concerns in New York City have recently been defrauded by accepting checks purport-

ing to bear certifications by New York banks. The scheme worked by persons calling themselves MAX GORDON



Specimen of check issued by Gordon-Berne-Cohen-Samuels gang

## Hotels Victimized

We are advised that a man named ROBERT KLINE (3694) represented the William Morris Agency, New York City, on a commission basis for a few weeks during the early part of this year. Owing to irregularities his services were dispensed with. His employers have since received several wires from banks and hotels in different parts of the United States and Canada regarding checks which this operator succeeded in cashing on the strength of his presumed connection with their agency. Kline is about 35 years of age, 5 feet 7 inches tall, weighing 150 to 160 pounds; has ruddy complexion.

GUY E. TUCKER (3695), alias T. W. Wilson, is cashing checks in Peoria and East St. Louis, Ill., drawn on the American Southern Trust Company of Little Rock, Ark., and the First National Bank of Chicago, Ill. They appear to be the printed form checks of E. W. McLain & Company, manufacturers of soaps, cosmetics and soap flakes. Those reported have been numbered 426 with either a numbering machine or a rubber stamp. The name of the bank drawn on and the payee have been inserted with a typewriter while the amount, usually \$42.50, has been filled in with a checkwriter. The checks are signed "E. W. McLain & Company by Guy E. Tucker, Auditor."

There is no E. W. McLain & Company in either Chicago or Little Rock, Ark. To date no bank has been defrauded, most of the checks having been cashed by hotels. A warrant for Tucker's arrest has been applied for at East St. Louis, Ill., and any information regarding him should be communicated immediately to our agents' nearest office. Tucker is 55 years of age, 5 feet 6 inches tall, weighs 140 pounds; has gray hair, wears glasses, and when last seen was wearing a dark brown suit and hat.

A. J. WEST (3696) has visited Boston, Philadelphia and was last heard from in Norfolk, Va. He is paying his traveling expenses by negotiating bogus cashiers' checks drawn on the Home National Bank, Longton, Kan. One check called to our attention is signed Charles G. Hayward, Cashier, and while this is the name of the cashier of the Longton bank, there is no similarity between the signature on the check and his genuine signature. The form of check is one which was discarded fifteen years ago by the Home National Bank. It is printed on white paper, and a checkwriter is used to fill in the amount. The words, "cashier's check," are printed in red ink in the lower left corner. West is about 40 years of age, heavy build, clean shaven, and for identification presents several letters addressed to him. He also wears a Masonic pin in the lapel of his coat and shows a Masonic card. He advised his last victim that the check had been sent to him by a sister who resided in Longton, Kan.

## Bogus Cashier's Checks

MEMBERS are warned to watch for bogus cashiers' checks printed on yellow or buff paper, ostensibly issued by the Denver National Bank of Denver, Colo., also bogus payroll checks of the California Oil Well Supply Company, Inc., marked "Payroll-L." The payroll check is printed on white paper, and the California National Bank, Sacramento, Cal., appears as the drawee. Believed to be L. C. PETERSON (3697), alias Walter A. Scott, alias Connolly, alias Davis, a man ordered 500 of each of the above checks from a Kansas City printer. At the time the first order for the payroll checks was given, the operator used the name Connolly and called at the printer's office. These checks were delivered to a man believed to be a hotel porter, and shortly afterward an order was given over the telephone for the cashiers' checks by a party who gave the name Davis. A messenger was also sent for the second order. The following description of the operator was given by the printer: 30 to 33 years of age, 5 feet 7 or 8 inches tall, weighing 150 pounds; medium build, medium dark complexion.

HARRY J. MILLER (3698) alias William H. Whitey, is drawing worthless checks on the Central National Bank of Philadelphia, Pa. These checks purport to be drawn against a savings account, and this bank has an arrange-

*Harry J. Miller*

ment whereby checks may be drawn against savings accounts, providing the number of the passbook appears on the check. Accordingly the bank printed special check forms upon which a space is conveniently provided for inserting the number, below which appears the printed notation that the check is negotiable, providing the number of the passbook appears thereon.

All the checks received to date have

been drawn against passbook No. 1339, and they have been cashed in various New Jersey towns. No description of the operator is available, but members should recognize his checks with the above information and the specimen of his handwriting which is reproduced herewith.

S. GEORGE DENCHEFF (3699) secured a number of counter checks of the Rawlins National Bank, Rawlins, Wyo., and had his name printed in the lower left-hand corner. Underneath the name he had printed "Amusement Company, 106—4th St." He gave the printer one of these checks for \$50 and secured in cash the difference between the face of the check and the charge for the printing. This first check and subsequent ones, which were issued in Denver, Chicago and New York City, have all been returned by the Rawlins bank marked "No Account." The only writing of the operator which appears on the checks is the signature, the rest of the checks being filled in by a numbering machine, date stamp, checkwriter and typewriter. We have no physical description of the operator, but his checks should be easily recognizable.

THOMAS P. GASEY (3700) entered into negotiations to purchase a garage in a small Pennsylvania community. Displaying a thorough knowledge of the business, when the preliminary arrangements had been completed, he visited a local bank, where he arranged to collect \$3,000 on a draft on the Detroit and Security Trust Company of Detroit, Mich. He did not open an account, but insisted that he be given a receipt for the draft. Later he used this receipt and the pose of a local garage-owner to get several checks cashed by merchants. When the draft was returned by the Detroit bank "No Account," the operator had left town. Gasey is 45 years of age, 5 feet 7 inches tall, weighs 160 pounds; has silver gray hair and is smooth shaven.

### Arrests and Dispositions

THE detailed record of arrests and dispositions usually presented upon this page is omitted due to lack of space, but the figures are taken into account in the following table:

### Statistics of the Protective Department

|                     | Awaiting Trial Sept. 1, 1928 | Arrests                      |                       |       | Dispositions |                         |                                   | Total Awaiting Trial |
|---------------------|------------------------------|------------------------------|-----------------------|-------|--------------|-------------------------|-----------------------------------|----------------------|
|                     |                              | Reported Since Aug. 31, 1928 | Reported in May, 1929 | Total | Convicted    | Discharged or Acquitted | Fugitives Escaped, Insane or Dead |                      |
| Forgers, etc. . . . | 99                           | 135                          | 14                    | 149   | 133          | 41                      | 12                                | 62                   |
| Burglars. . . . .   | 23                           | 14                           | ....                  | 14    | 10           | 12                      | 2                                 | 13                   |
| Holdup Robbers      | 127                          | 120                          | 23                    | 143   | 97           | 55                      | 11                                | 107                  |
| Total. . . . .      | 249                          | 269                          | 37                    | 306   | 240          | 108                     | 25                                | 182                  |

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